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THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Editor-Publisher*

The Trend of Events

GOOD JUDGMENT VS. POLITICS . . . In the last five years those of us sitting on the side-lines have been in a good position to see how politics has interfered with the proper conduct of our affairs and what it has cost us at home and abroad. Vital matters have not received enough rounded consideration—resulting in impulsive action that has had to be modified again and again, destroying confidence in the dependability of our pronouncements.

What is so very serious in this situation is that the underlying cause for this shift and change has its roots in the thinking of individuals whose lust for political power and position makes votes a matter of paramount consideration to them. This influence has to a very large extent acted to undermine the democratic processes in our form of government, which depend on judicious, objective conclusions to balance judgment in decision-making.

What will go down in history as the "Little Rock Incident" is a case in point. The question involved is, in the final analysis, not the enforcement of school integration. (Eminent constitutional authorities may disagree as to whether either President Eisenhower or Governor Faubus was right in calling out the troops.) Each, it is manifest, regarded armed force as the only way to uphold the majesty of the law in the premises. But, it cannot be denied that the Nation has suffered dire consequences as a result.

The query as to which party will gain the most politically out of the Little Rock school integration has been answered by one realistic politico with the question: "Who won the San Francisco earthquake?". This is not to inject a non sequitur, but to point up the fact that no good flows from a catastrophe—and militarization of Little Rock with all its implications is just that.

And, what is more, no consideration evidently was given to the fact that the episode opened the gates wide to subversive elements in a position to magnify the situation by exciting headlines and ill-considered photographs—by those who thought in terms only of the momentary excitement and headline advantages—and not of the consequences to world opinion.

The fact is the situation broke just as the United States was bringing the matter of Russia's crushing of the Hungarian revolt before the U.N.—and the unpleasant Little Rock situation gave the Soviet Union a propaganda rebuttal which they magnified beyond recognition, and spread all over the press of the world to show that the United States was living in a glass house and had no right to throw stones.

At the same time, Mr. Hoffa was challenging the United States to keep him from being elected as head of the Teamsters' Union. What a spectacle of degeneracy in democratic government at a crucial period in our history—at a time when we are seek-

(*Please turn to page* 120)

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

Business, Financial *and* Investment Counsellors::1907—*"Our 50th Year of Service"*—1957

By A. W. ZANZI

As I See It!

WHY THE POUND, THE DEUTSCHEMARK AND THE FRANC AGAIN WILL BE REVALUED

Europe's currencies are due for widespread revaluation. Despite heated denials by officials of England, France and Germany there is little chance that the chaotic European currency situation can be significantly improved without revamping the relationship of European currencies as long as the basic factors which precipitated the crisis remain unchanged. And, despite some vigorous but nevertheless inadequate gestures in that direction there is little evidence as yet of any willingness or ability to impose those austere economic restraints which might obviate the need for such pitiful expedients as currency revaluation. For, admittedly, raising the value of one currency and lowering the value of another offers no real or lasting solution to the problems which now beset most of Europe. But this formula is a convenient if desperate alternative to the politically unpalatable inflationary controls which, at the cost of some sacrifice in standards of living, might more wisely be adopted.

Heated denials that the Pound and the Deutschemark would be reshuffled were offered primarily in the hope that they would ease the fears or quell the speculative fever which caused the recent run against the Pound. Any abatement of this speculative pressure would encourage the repatriation of some Sterling, reduce West Germany's holdings of "hot" money and improve the relative position of the Deutschemark and the Pound. This would unquestionably bolster the shaky Pound and permit at least a calmer and more dispassionate appraisal of more far-reaching remedial measures. However, there is little evidence yet that the short position in Sterling has been significantly reduced. It will be some time yet before such evidence will become available to the public.

But the feeling persists in Europe that the D-Mark will be revalued upward. For this reason there may be no hurry to dump D-Marks and return to Sterling. This attitude is further encouraged by the fact that speculators are in an almost impregnable position inasmuch as they can be sure that, come what may, the D-Mark will certainly not be devalued. *They therefore have nothing to lose by holding on to German money but they do incur some risk of taking a loss if the Pound is devalued after they return to Sterling. Thus, the new 7% "Bank" rate in Britain and a lower rediscount rate in Germany may not have the desired effect of encouraging the repatriation of Sterling. Moreover, there is some question as to exactly how powerful a magnet the 7% "Bank" rate will be to investment funds from abroad. In the face of growing capital scarcity and credit curbs, this is not a particularly lucrative rate, especially when German bonds still command 8%.*

Far Flung Problems in Sterling Area

Furthermore, very little attention has been paid to the contribution made by other Sterling bloc nations to the general lack of confidence in the Pound. As a result, London has been shouldered with a disproportionate share of the blame for this situation. At the same time anti-inflationary measures in Britain encourage excessive optimism about the future of Sterling. For the fact is that overspending by other Sterling nations has contributed as much as England's fiscal profligacy to a weakening of confidence in the Pound. Nor is there much hope that the developmental expenditures of these countries can be significantly restrained without incurring dangerous political risks. For standards of living in many Sterling nations—such as India, Pakistan, Iraq, Jordan, Libya and Burma—are now scarcely above the subsistence level. And even this meagre tenor of life can be maintained—in the face of constantly multiplying populations—only by stimulating and expanding agricultural and industrial output. Thus, any stabilization scheme which would impose further hardship on these nations would offer them too much of a temptation to try the Communist experiment.

Development programs in many Sterling countries have accounted for a considerable portion of the drain on gold and dollar reserves held by the United Kingdom as central banker for the area. This is due to the fact that Sterling countries place their gold and dollar earnings in a central pool and accept Sterling balances in return. These gold and dollar reserves can be used to finance trade and to acquire capital goods for economic expansion. But they can also be drawn upon to support the Pound when it is under pressure. The contribution of developmental outlays by Sterling nations to the recent weakness of the Pound can be roughly assessed by considering that India, Pakistan, Ceylon, Burma, Iraq and South Africa spent the Sterling equivalent of $575 million during the first six months of 1957. India alone accounted for $364 million of this total. These losses were only partially offset by gains of $385 million achieved by Australia, New Zealand and Ireland.

India is now seeking $1.4 billion in foreign capital to finance a substantially reduced version of her second five-year plan. The World Bank will probably provide $400 million of this during the next four years. Little assistance can be expected from this country in view of growing Congressional opposition to foreign aid expenditures. Moreover, the proximity of the U.S. limitation on the national debt leaves little room for large loans now. In fact, the U.S. Treasury may find itself dangerously close to the debt limit if England, as expected, decides to draw on her $500 million line of credit with the Export-Import Bank instead of utilizing the $750 million loan approved by the International Monetary Fund. Washington may escape from exceeding the debt limit only by borrowing through such federal agencies as the Federal National Mortgage Association, the Commodity Credit Corporation and the Export-Import Bank. Borrowing of this type is considered outside the debt limit. London will probably secure the Export-Import Bank loan by depositing American securities. Portions of these could then be sold by the Export-Import Bank to private banks.

Vicky in The London Daily Mirror
"Another gold rush?"

Glaring Shortage of Loanable Funds

These considerations highlight the fact that India and other Sterling nations will encounter growing difficulty in financing the foreign exchange portion of even an irreducibly minimal economic development program. But, more important, they belatedly bring into proper focus the role played in the past by large U.S. foreign aid grants in concealing the inadequacy of World Bank and International Monetary Fund resources. In the light of the modest level of present and future U.S. aid and in view of the increasing demands being made on the World Bank and the IMF, their shortage of loanable funds will become even more glaring. If this not-too-happy prospect is further judged in connection with the recent reappearance of the "dollar gap" and the increasing drift in this country toward a more vigorous protectionism, the effect of the shrinking volume of dollars that will be available for economic development abroad can readily be assessed. Faced with a choice between cutting economic development below acceptable levels and the unsavory political alternative of abandoning democratic means of evolving a modern society, countries such as India would understandably try to straddle the horns of the dilemma and vote for deficit financing. The impact on Sterling is only too obvious.

The problems faced by the Sterling area are further complicated by the fact that many of its members are primarily exporters of raw materials. As such, the terms of trade have been increasingly moving against them. The prices of the raw materials they produce have been falling, while the costs of industrial goods which they import have been steadily rising. Inasmuch as this trend is expected to continue for some time, it is unlikely that these nations will be inclined to accept with good grace the suggestion that they deflate their economies while industrial nations that provide their industrial goods continue to inflate their prices. Under these conditions it will be extremely difficult for many Sterling bloc nations to build up gold and dollar reserves with which to finance their development programs. Again, the alternative of deficit financing will prove tempting. But the consequent flight of capital will hardly prove beneficial to the Pound.

Some hope for an escape from the prospect of an increasing dollar shortage is seen in the likelihood that West Germany may assume a large portion of the U.S. foreign aid burden. Larger German investments abroad would unquestionably ease the pressure on the Franc and the Pound. But German credits to other countries would constitute a blow to American exporters, particularly manufacturers of heavy machinery. Under the circumstances, Germany would receive most of the orders for capital goods. Moreover, this scheme would at the same time give the Germans an advantage in those very markets in the Middle East and Orient upon which Britain depends for her export outlet. It is thus conceivable that this policy could aggravate the very condition which it is designed to alleviate. Moreover, those who look to larger German capital exports for an abatement of the pressure on the Franc and the Pound must not overlook the fact that it will be some time before normal commercial capital exports from Germany reach sizable proportions.

Germany's embarrassment of riches is more than a glittering symbol of her rise from the rubble of war. Her gold and foreign exchange reserves are a powerful new economic and political weapon and it is not inconceivable that Bonn intends to use them with telling efficiency. And it is not unlikely that it may have occurred to German officials and businessmen that these (*Please turn to page* 120)

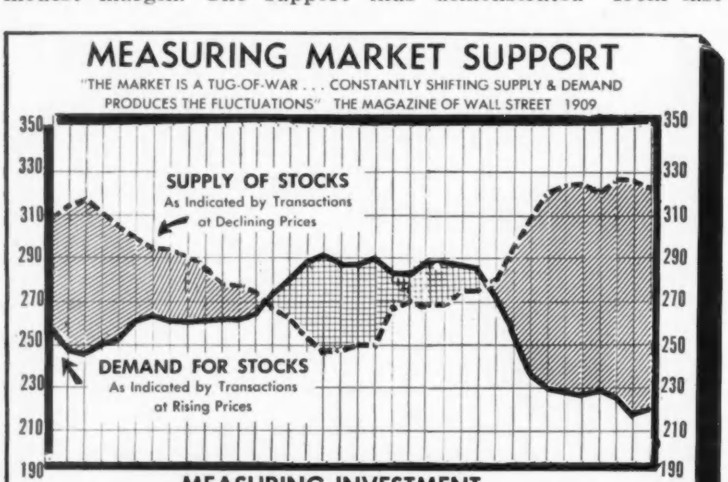
Lower Tops and Bottoms

Market prospects continue clouded, with prospects for 1958 business activity uncertain. At best, we do not see present basis for more than a fair-to-middling year. Although there is promise of long-pull economic growth, the fact that total corporate profits have lagged for five years under boom conditions is sobering. Our policy remains cautious and conservative.

By A. T. MILLER

The stock market remains on the defensive, with rallies to date comparatively small; and the possibility, if not probability, of a further downside test must be allowed for. However, the retreat has become less of a rout and the defenses show some signs of getting stouter. To illustrate, the industrial average fell a rapid 50 points from the July recovery top to August 26 before the first appreciable rally developed, while the net decline to the subsequent low, recorded September 30, was about 19 points.

The September 30 low, at 456.30, left last February's bottom of 454.82 intact, even if by only a modest margin. The support thus demonstrated induced another rally, but it was partly given up by last week's close, since investors remain too uncertain and cautious to bid up much for stocks. So far the average's maximum decline from its strongly-defined triple top (April and August of 1956 and July of this year) has been about 12.5%. Utilities show indications of having been over-sold, and may have seen their worst or nearly so; while rails were at least temporarily over-sold. Both of these averages have rallied a bit from lows established September 25. At the latter point rails were down some 32% from their May, 1956, top, and 20% from last July's recovery high; and utilities had fallen nearly 10% from last May's bull-market peak.

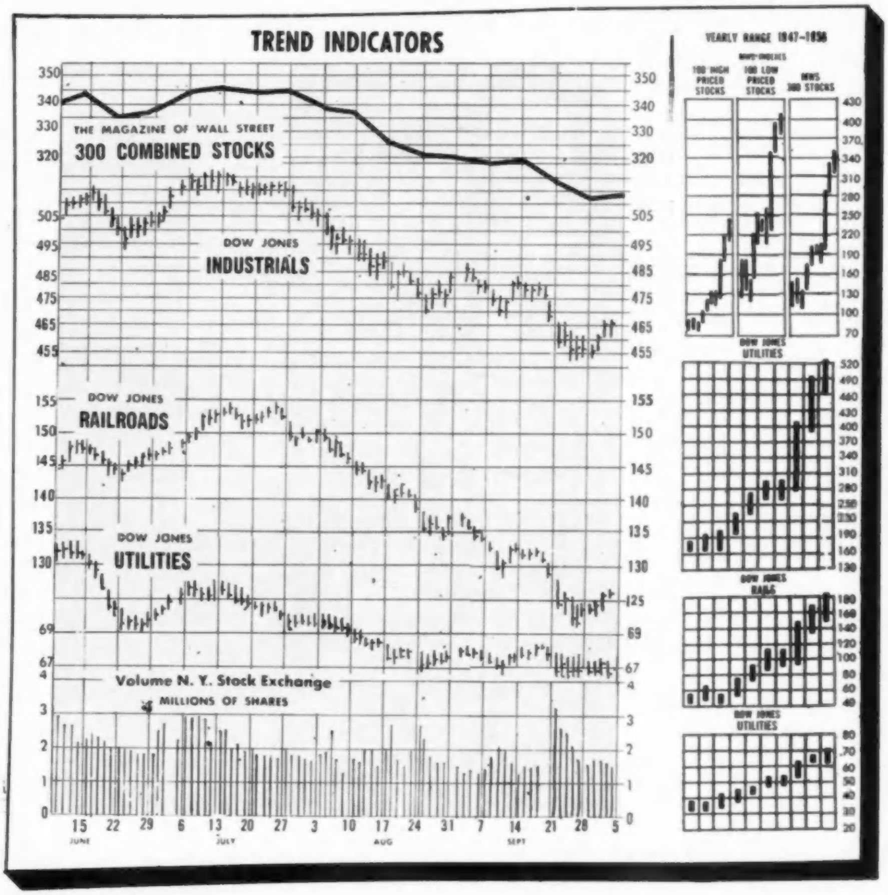


Near-Term Prospects Unclear

It appears about as sure as anything in the stock market can be that the industrial average will not get back to or above the 520-521 top for at least a rather extended, and possibly long, time to come. That would require tangible and psychological factors quite different from those now existing or within sight. What, then, are the possibilities now and over the rest of this year? An adequate technical and psychological base for any sizable intermediate recovery phase is not now demonstrable, but could develop around or shortly before the year end after abatement of what figures to be the heaviest tax-selling pressure in many years. With the average up about 12 points from the September intra-day low to last week's top level, the chances for further near-term rally seem slight or nil. That leaves two immediate alternatives: (1) selective churning around close to recent levels, with the September 30 low holding on test; or (2) some extension of the decline. While the first is possible, it would not be prudent to count on it.

If there is an extension of the retreat in the early offing, how far might it go before there is a stout enough base for at least a sizable recovery swing? Nobody can answer the question either

with much assurance or in precise terms. However, our tentative thinking is that a fast, steep plunge is unlikely; and that the industrial average might well make a respectable fight in giving up more ground. On a guess-estimate, a base for more than a minor December-January rebound may be between 450 and 425, which is to say within roughly 6% or less below the February low.



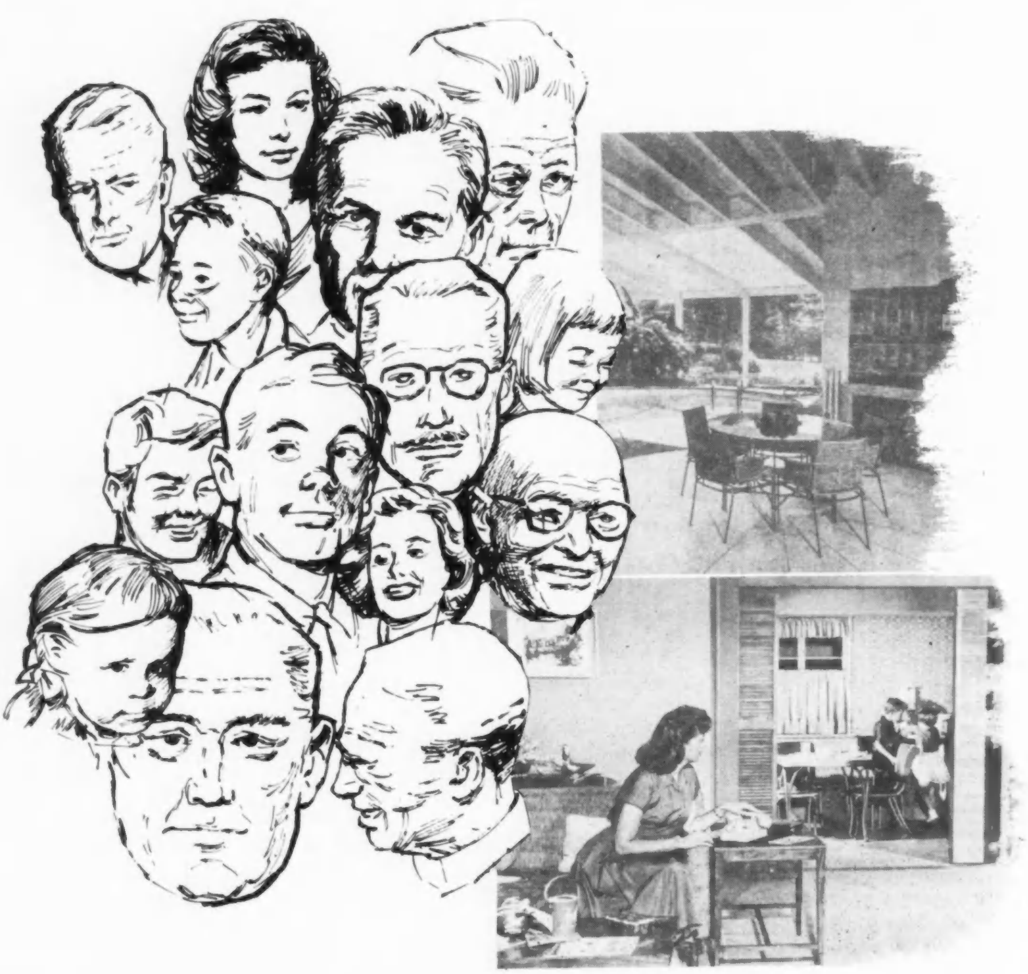
It may be worth noting that six market sell-offs during the last 21 months or so have halted within the range 453-464 in the industrial average, with the following series of intraday lows: In 1956 January 23, 458.21; May 28 463.85; October 1 463.83; November 29 460.41; and, in 1957 to date, February 12, 453.07 and September 30, 454.70. The technical support level thus implied obviously is less rugged than the 520-521 supply level heretofore cited. For one thing all of the 1956 lows have been broken already, at least in moderate degree, leaving only the staunchness of last February's bottom in question. For another, the business and financial environment is more sobering than at any time in 1956 or than was so in February of this year; there has been a marked deterioration in medium-term investment confidence; and there has been some deterioration in long-term confidence, the signifiance of which is impossible to gauge at this time in view of the demonstrated volatility of "sentiment".

Every share of stock sold by anybody is, of course, a share bought by someone else. Price concessions will invite more buying than in some time by mutual funds and other institutional investors. Many individuals who are well-heeled with cash, and who remain sold on "long-pull prosperity and inflation", will be buying. On the other hand, there will be no lack of sellers. Many individuals who have bought stocks only in recent years have had no experience with other than small market decline, and have heretofore resisted taking profits partly because of the capital gains tax, partly because of hope of more appreciation. How many will forget the tax and be scared into some dumping if and when they see more of the paper profits evaporating? Aside from feeling uncertain or dubious about potentials for 1958 business activity and corporate earnings, some will be more inclined to take profits because they now have losses to offset against them for tax purposes. Again, there is likely to be some further shift out of cyclical stocks and over-priced growth stocks into defensive income equities which do not figure much in the Dow industrial average.

On balance, the tax sellers could hold the key in nearby weeks and could tip the market scales downward. Tax selling is already in progress but appears nowhere near its peak, with the latter usually seen in late November or December. These sellers are showing much more inclination than in recent previous years to hold the proceeds of sales in reserve "for a time", rather than switch promptly into other stocks. Nevertheless, we do not see any real market collapse in the offing. If it is now doubtful that business will be good next year, it is also doubtful that it will be more than mildly poor. Pending more light, there is a time factor to be allowed for in market adjustment. We question that the full story of this decline, or of the interruptions in it, will be written during the rest of 1957 or early-1958.

What's Ahead for Business?

Since a boom in 1958 is ruled out, it could be a so-so year or a year of mild recession. The principal indicators pointing downward are total orders and order backlogs in the manufacturing industries, new contracts for heavy construction, and plant-equipment outlays. However, manufacturing accounts for only about a fifth of employment. On the sustaining side, present indications point to an increase in total governmental spending in 1958. Little change in consumer spending is likely. Gross national product (insignificantly affected by the 1949 and 1954 recessions) could well approximate this year's. But if one assumes a so-so year, (*Please turn to page* 120)



Does **NEW POPULATION** Structure Provide a **FLOOR** in **RECESSION?**

By HOWARD NICHOLSON

In the business press over the past several years, a frequently recurring theme has been the bullish aspect of the American population trend. American population is now about 171.3 million, about 20 million more than in 1950: by 1965 Americans will, in all likelihood, number about 200 million, twice as many as in 1915 and 50% more than in 1941.

The tremendous growth rate of American population thus forecasts a substantial increase in the number of domestic customers for U.S. business in coming years. It also indicates a considerable alteration in the age structure, and geographic distribution, of customers—both matters of significance for all consumer industries. These aspects of the population trend are discussed below. But in the present atmosphere of business uncertainty and misgivings, it is perhaps worth noting that population growth is even now providing a *short-term* support to business. And even over the next few years the gradual aging of our population will be producing some business consequences worthy of comment. The population trend is not just a strength of the future; in some respects, it is now providing a *floor* to recession; a floor that did not exist in 1929.

In 1929, for example, there was no "Old Age and Survivors Insurance" system—no "social security", to use the more common name. There were no state unemployment insurance benefits; no railroad retirement insurance benefits; no railroad unemployment insurance benefits; almost no federal government civilian pensions; almost no government life insur-

The Population Trend by Age Groups

Age	Population 1955	Population 1965[a]	Increase in Population Millions	Increase in Population Percent
	—(Millions)—			
under 5	18.3	20.4	2.1	11
5-9	17.1	20.3	3.2	19
10-14	13.3	19.2	5.9	44
15-19	11.2	17.2	6.0	54
20-24	10.8	13.5	2.7	25
25-29	11.7	11.4	—0.3	— 3
30-34	12.4	10.9	—1.5	—12
35-39	11.6	11.8	0.2	2
40-44	11.2	12.3	1.1	10
45-49	10.1	11.4	1.3	13
50-54	8.8	10.7	1.9	22
55-59	7.8	9.3	1.5	19
60-64	6.7	7.7	1.0	15
65-69	5.4	6.4	1.0	19
70-74	4.1	4.8	0.7	17
75 & over	4.7	6.2	1.5	32
all under 20	59.9	77.0	17.1	29
20-64	91.1	99.0	7.9	9
65 and over	14.2	17.3	3.1	22
Total	165.2	193.3	28.1	17
20-64, as % of Total:	55%	51%		

[a]—Based on highest of Census estimates.

Note: Components may not add to totals because of rounding.

ance benefits; no private unemployment insurance plans; almost no net equity in private plans.

In the years since 1929, these programs have evolved into a set of financial cushions that would have seemed unbelievable in 1929. And population growth, together with the gradual aging of the population, is making them more important every day.

The social security system is now paying out benefits at a rate of $6.5 billion a year, and the rate is rising by about $800 million every year. Railroad retirement insurance benefits amount to about $700 million a year. Federal civilian pensions now exceed $500 million a year. In 1929, payments from all such sources (to the extent they were in existence) totalled a miniscule $40 million. And in addition to these publicly financed pension funds, American business is now contributing about $6 billion a year to private pension and welfare funds (in 1929, such payments amounted to about $170 million).

Growing and aging of the population is constantly tending to swell the flow of funds available for spending from these sources. And behind these sources, in the event of recession, lie almost equally substantial payments for unemployment. Even in booming 1955, public unemployment payments amounted to well over $2 billion. Even minor recession would raise this figure to $4 billion in a hurry. In fact, just the simple annual increase to the labor force which is expectable over the next few years could well add about $700 million a year to unemployment payments, if the additions to the labor force do not find jobs. And this, of course, excludes private unemployment insurance ("supplementary unemployment benefits") which is still in an early stage of development, but is likely to grow rapidly over the next five years.

Enormous Growth of Transfer Payments

Most of these programs appear in government statistics in the form of "transfer payments" to individuals, a component of personal income. In 1929, transfer payments amounted to $1.5 billion. In 1939, they had risen only to $3 billion. Today they amount to $21 billion. And population growth and aging are pushing the volume of payments upward at a rate of about $1 billion a year. Recession would add at least another $2 billion to the rate. And gradual liberalization of social programs and private welfare and unemployment programs are probably boosting the rate another $1 billion a year. The net effect of this impact of population on a progressive benefit system would be to yield "transfer payments" of perhaps $25 billion in 1958, if a recession should strike in that year. A really severe recession would extend the rate to the neighborhood of $30 billion, in 1958; a severe recession in 1960 would, thanks to population growth, generate a "transfer payment" rate of perhaps $32 billion!

This is the current stabilizing influence of population growth, as exerted through the spreading net-

The Population Trend by Region

Region	Population 1955	Population 1965	Increase in Population Millions	Increase in Population Percent
	—(Millions)—			
NORTHEAST	41.9	47.5	5.6	13
New England	9.6	10.5	0.9	9
Middle Atlantic	32.2	36.9	4.7	15
NORTH CENTRAL	48.4	57.0	8.6	18
East North Central	33.6	40.6	7.0	21
West North Central	14.8	16.4	1.6	11
SOUTH	50.8	57.6	6.8	13
South Atlantic	23.4	27.7	4.3	18
East South Central	11.7	12.1	0.4	3
West South Central	15.7	17.8	2.1	13
WEST	23.2	30.5	7.3	31
Mountain	5.9	7.6	1.7	29
Pacific	17.3	22.9	5.6	32

Source: Bureau of the Census. Components may not add to totals because of rounding.

work of "security payments". For the longer term, the pressure of rising population, while it is doubtless creating new problems, is also holding forth a promise of a stabilizing force to moderate a deepening recession—and resiliency for a comeback when the tide turns.

How Our Population Is Changing

An accompanying table sets out the percentage changes in population likely to occur between 1955 and 1965, *by age group,* based on the highest of the Census projections.

The first striking aspect of these figures is the extreme diversity in the percentage changes, ranging from a 12% decline in the population aged 30-34 to a 54% increase in the population aged 15-19. A second aspect is the saddle-shaped distribution of the percentage changes—high at both ends of the age scale, but low in the middle. *This is a fundamental population trend emerging in the next decade; even considerable error in the projection does not alter the fact that in 1965 we will have considerably more older people and young people, and only a few more people in the middle age brackets.* This coming change has two sets of implications; one set involving the character of general business conditions, the other involving the probable development of individual industries whose markets are tied to specific age groups.

Note first that in 1965 fully 40% of the total population will be under twenty years of age, compared with only about 36% today. Another 9% will be over 65, slightly more than the proportion today. Altogether, the working age population in the 20-64 age groups will constitute only 51% of the population, compared with 55% today. That means, in effect, that each working person in the 20-64 age groups may have to work about 10% harder in 1965 to maintain the non-working population than is true today. Of course many other factors enter into this equation of worker and non-worker: the productivity of an hour's work will doubtless rise substantially between now and 1965, thanks to further heavy investment in new, bigger and better tools by American industry. On the other hand, the number of hours worked per week by the average employee will doubtless decline further, as it has for the past fifty years. Finally, the proportion of those in the working ages who actually take jobs may change in complicated ways (increased schooling means that a smaller proportion of the younger working-age population will be at work, but there appears to be an increasing proportion of married women of working age who are seeking employment).

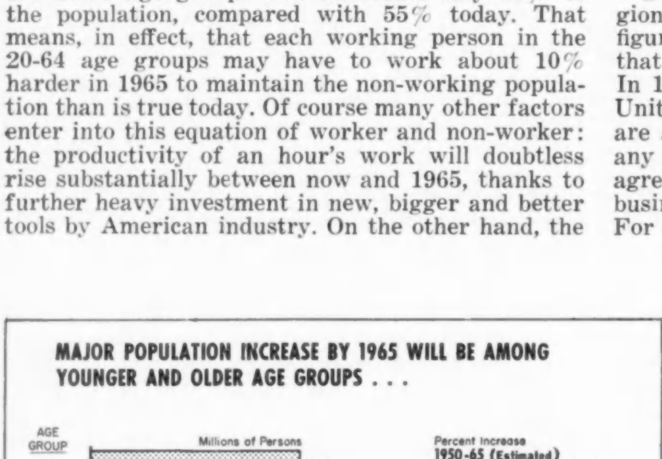
Granting all these complexities, it remains true that the eligible worker in the population will be relatively less numerous in 1965 than he is today. In fact, in the crucial age groups 25-45, workers will be fewer in absolute number than today, even though the total population will have increased by 28 million!

The significance of this fact, from a national policy point of view, is twofold. It suggests, in the first place, that labor will continue to be in a relatively strong bargaining position in the next decade. It also suggests that if the American standard of living is to continue to rise in the face of a falling relative proportion of workers to total population, *tremendous new investment in plant and equipment, and in labor-saving plant and equipment particularly, will be necessary.* It takes incentive, in the form of adequate earnings, to create this investment; it will be necessary (and it is hoped that the necessity will be noted in Washington) to maintain a business environment conducive to satisfactory earnings if the output of the national economy is to grow as fast as our total population is likely to grow.

The Coming Wave of Family Formation

Before turning to the outlook for individual regions and industries in the light of these population figures, one should also note a special aspect of them that has profound implications for the early 1960's. In 1965, there will be 36 million teen-agers in the United States—50% more than in 1955. Teen-agers are an important market in themselves, of course; any phonograph record company will be happy to agree. But they have an anticipatory importance for business that can be of overwhelming significance. For today's teen-agers are tomorrow's brides and grooms, and the day after tomorrow they are out buying homes, cars and appliances. The year 1965 is often mentioned as a year of tremendous boom in these consumer durables markets. The statement is partly inaccurate, in that the boom will occur in the years following 1965. Between 1965 and 1970, the number of marriage-age persons in the U.S. will itself increase by 50% as the teen-age wave passes into early adulthood.

This wave pattern moving into adulthood is the focus of another set of Census projections that is too often overlooked—the projections of the rate of household formations in the Unted States. At present, about 800,000 new households are formed each year (mainly by marriage, but partly also by the removal of a married couple into their own home, after a time spent with either set of parents). The rate of 800,000 is not much more than half as rapid as the rate of household formation in the years 1947-1950, a fact which partly accounts for



the difficulties of the nomebuilding industry, and perhaps also the auto industry. Moreover, the rate is likely to stay around 800,000 into the early 1960's. By 1965 it may be close to 900,000; by 1970 it will be well over one million; by 1975 it will probably exceed 1.2 million.

The turning point in this crucial statistic of household formation is thus a little earlier than 1965. By that year, the industries involved with products sold to families, rather than to individuals (homes, appliances, cars, encyclopaedias etc.) will already be in an upswing, and producers will be anticipating the burgeoning market of the late 1960's, when 17 million American youths will move into their early 'twenties.

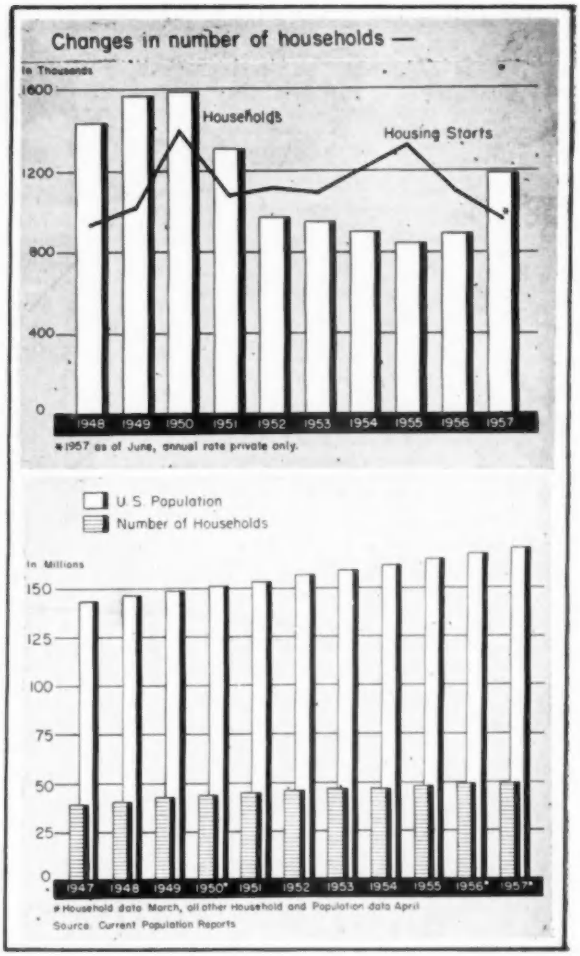
Construction Activity Will Rocket

To turn more directly to the market implications of the population structure of the 1960's, look first at the developments at the young end of the age scale. In 1965, there will be five million more children under ten than there were in 1955. This is obviously a significant strength for a number of markets involving infant-wear and infant-care, toys and games, so-called "wheel-goods", baby foods, etc. But the real burst in child population will come in the teen-age classifications, where a 12-million increase in population is expected. Here the markets involved are somewhat different: sporting-goods; teen-age and college clothing; perhaps small cars; second, or smaller, appliances for which the primary market has been largely saturated (i.e., television, phonographs, telephones).

For both groups, education will doubtless be a fundamental market. By 1965, the public- and high-school populations will have swelled by more than ten million, and will have grown more concentrated at the high-school level. School-building is thus an obvious growth area of general construction. How it will be financed remains very much an open question, but it is doubtful indeed that anything short of a major national upheaval will prevent school construction from rising substantially in the next decade. Together with the obvious requirement for roadbuilding, now recognized in the 10-year federal program, public construction as a whole is likely to be in a persistent, aggressive uptrend throughout the decade. And by late in the decade—that is, as 1965 is approached—this uptrend in public construction will in all probability be joined by a rising trend in private residential construction to provide homes for the erstwhile teen-agers who have emerged from school.

One can thus find good reason, in the population statistics, to expect that the construction industry in the early 1960's will be on the threshold of an important further advance in activity. The one caution that needs to be applied to this forecast is that construction is a highly sensitive industry; it reacts very violently to the business cycle. An intervening depression would doubtless strike private construction hard (although it might act to even increase the rate of public construction).

The consumer durables outlook, on the other hand, is less favorable, mainly because the government demand which is so important an element in the construction outlook is largely lacking for the auto and appliance industries. While 1965 is likely to see the consumer durables industries riding a strongly favorable wind, the years between now and the early 1960's will be adversely affected by the relatively low rate of household formation, and hence a relatively low rate of equipment demand for new homes.



Oldsters Create New Markets

Let us turn now to the other end of the age spectrum. Here the markets are smaller, because the population is smaller. But a significant population tide will nevertheless be affecting these markets. By 1965, there will be about 3 million more persons over 65 than there were in 1955—an increase of about 22%. There will be almost a third more persons aged 75 and over. It is hardly news that the so-called "senior citizen" has graduated into a market all his own, ranging from specially designed homes to specially designed foods and medicines – to specially designed recreational activities. The population statistics provide little in the way of a guide to the future of this market; much depends on sociological trends in the interests and behavior patterns of this population segment. But there is an obvious tendency toward treating the "senior citizen" as a distinguishable market. More- *(Please turn to page 119)*

Important to Investors

WHICH COMPANIES are BORROWING for WORKING CAPITAL—for EXPANSION?

— An analysis of the main reasons behind recent corporate financing despite dwindling markets and profit margins

By PATRICK de TURO

For the first time in the nation's history, corporate security flotations this year will exceed \$1 billion a month. American corporations are expected to raise during 1957 approximately \$13 billion of additional capital through new security issues. This year's record figure will represent an increase of about 20 per cent over a year ago, and will be more than double the \$6.4 billion secured from outside sources in 1950.

A number of fundamental economic and financial forces are responsible for the almost frantic scramble for external financing. The natural desire of American businessmen to increase production for an expanding economy exerts pressure both on available fixed and working capital. But to finance increased production during a period of persistent price inflation makes the problem doubly difficult. For the typical industrial corporation, available plant capacity has been insufficient to satisfy either the present or anticipated future demand for its products, and additional productive capacity has been brought on stream. It is generally recognized that to replace a plant constructed twenty years ago at a cost of \$1 million would require about \$3 million at today's prices. In the meantime, depreciation charges on the original cost of the old plant provides only one-third of the cost of a new one, and the balance must be financed either out of retained profits or from the proceeds of new security issues.

The most pointed illustration of how rising costs have squeezed the American business man was supplied by a southwestern utility company which an-

Major Corporate Financing During 1957

Company	Amount (Millions)	Issue	Purpose of Financing
		BONDS	
ALUMINUM CO. OF AMERICA	$125	4½/1982 Deb.	Expansion and improvements.
AMERICAN TEL. & TEL.	$250	To be offered Nov. 1, and Mature in 1983.	Proceeds for improvements and expansion.
ATLANTIC REFINING	$100	Convert. Subord. Deb. 4½/1987	To repay bank loans and for general corporate purposes.
EL PASO NATURAL GAS	$ 60	Convert. Deb. 1977	Construction and repay bank loans.
GENERAL MOTORS ACCEPTANCE CORP.	$100	Deb. 5—1977	For refunding and working capital.
INLAND STEEL	$ 50	1st Mtge. 4⅜%	Construction and improvement program.
LEHIGH PORTLAND CEMENT	$ 30	S. F. Deb. 4⅞—1979	Together with funds from sale of com. stk., to repay bank loans and expansion.
OLIN MATHIESON CHEMICAL	$ 60	Intends to offer Subor. Conv. Deb. later in the year.	Additional working capital for development.
PHILLIPS PETROLEUM	$171.7	(Rights to Stockholders) Convert. Subor. Deb. 4½—1987	Proceeds applied in part to repay bank loans, balance to general funds and capital expenditures.
REYNOLDS METALS	$100	1st Mtge. bonds	To finance construction of St. Lawrence Seaway plant and expansion of fabricating facilities.
SPERRY-RAND	$110	S. F. Deb. 1982/W./W.	To repay bank loans and general corporate purposes.
		PREFERRED STOCK	
EL PASO NATURAL GAS	150,000 sh. cum. pfd. 300,000 sh. 2nd cum. $5.00 series pfd.		To enlarge capacity of its system, and loan up to $15 million to Pacific N.W. Pipeline Corp. for construction.
CARRIER CORP.	118,000 sh. 2nd cum. 4.8% series pfd.		To be exchanged for 5% preferred stock of Elliott Co.
		COMMON STOCK	
ANACONDA	1,734,865 sh. (rights to stockholders)		Capital expenditures.
ARMCO STEEL	1,088,179 sh. (rights to stockholders)		Plant expansion and working capital.
COLUMBIA GAS SYSTEM	1,675,415 sh. (rights to stockholders)		Construction program.
INT. BUSINESS MACHINES	1,050,223 sh. (rights to stockholders after 2 for 1 stock-split)		To keep pace with increased orders for electronic data machines and other products.
REYNOLDS METALS	914,078 sh.		Expansion and general corporate purposes.
ST. REGIS PAPER	850,000 sh.		To exchange for stock of St. Paul & Tacoma Lumber Co.
SOCONY MOBIL OIL	4,379,758 sh. (rights to stockholders)		Capital expenditures.
STANDARD OIL OF N. J.	Offering to stockholders, later in the year of $250 to $300 million of additional capital stock.		To pay for large expenditures of capital equipment and to search for oil.

nounced recently that it had contracted for the demolition of a brick chimney constructed in 1921. The cost of demolishing the chimney was greater than the cost of building it thirty-six years ago. The high cost of plant replacement explains in part why business expenditures for new plant and equipment continue to shatter all existing records, while business in general has leveled-off.

Increased Efficiency and Working Capital Are Pressing Needs

Another reason for the high rate of capital expenditures can be found behind the headlines in the financial press which proclaim monotonously, that "sales are up, but profits are down." The general squeeze on profit margins, from which few industries have been spared in recent years, has spurred corporate managements to seek greater efficiency in production. Increased efficiency frequently cannot be achieved without a substantial additional investment in new and more expensive machinery. A large part of the spectacular profits recovery of companies like **Lukens Steel** can be attributed to the factor of greater efficiency through capital expenditures.

Of more pressing concern to corporate managements has been the problem of steady attrition in working capital. In recent years, the over-all quality

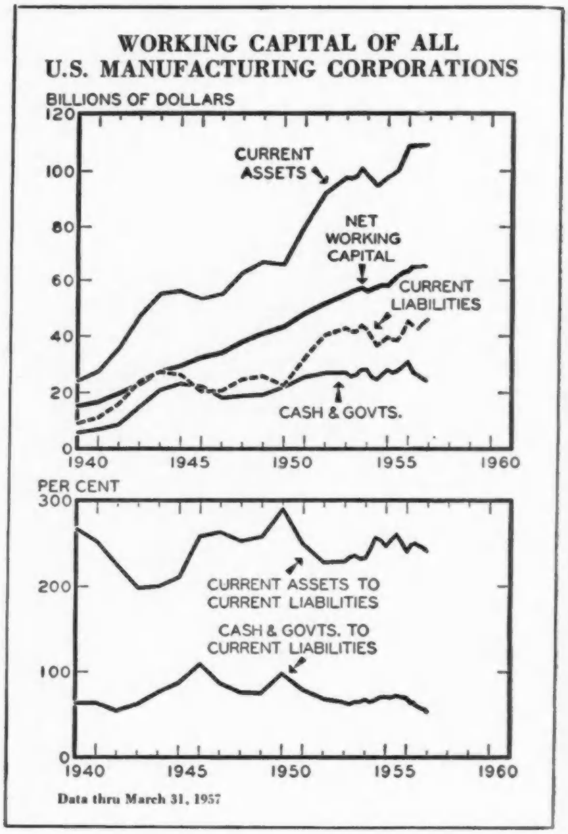
of the working capital position of American corporations has declined steadily. A larger volume of business at inflated prices has increased the investment necessary to finance receivables and inventories. As a result, cash assets have been used to build up both receivables and inventories, thus reducing the quality of the working capital. In 1949, for example, cash and government securities represented 33 per cent of total current assets. By 1952, the percentage had decreased to 27 per cent, and in the first quarter of 1957 cash and government bonds represented only 22 per cent of current assets. To put it differently, between 1949 and the first quarter of 1957, corporate holdings of cash and governments showed no significant change, while current liabilities nearly doubled. That explains why an increasing proportion of corporate prospectuses indicate the need for more working capital as either the sole purpose or the main purpose for outside financing.

The weakness of corporate working capital can be measured in another and more conventional way. It is generally assumed that the typical corporation should possess twice as much in current assets as it has in current liabilities. Admittedly, this current ratio test is general and must be judged on the merits of the individual company under consideration. Yet, many financial institutions that extend credit to business consider two dollars of current assets for every dollar of current liabilities as a minimum standard of adequacy. In 1949, American corporations reported $2.20 of current assets for every dollar of current liabilities. By 1952, the figure had declined to $1.93; and in the first quarter of 1957, it amounted to only $1.89.

From the typical investor's point of view, a constant vigil on working capital can become a useful tool for anticipating future financing. A persistent weakness in liquidity accompanied by steady attrition in the current ratio are signs of the possibility of impending new financing—with a possible dilution in equity over earnings per share.

Until comparatively recently, about 80 per cent of all outside financing since the end of the war has been through debt securities. In 1929, on the other hand, only about 30 percent of outside capital requirements was secured from long term debt sources, and the balance was obtained from equity sources.

In addition to the basic problem of securing adequate funds to finance the enormous expansion of both fixed and working capital, a number of significant and highly inter-related factors account for the preference among corporations for debt securities.



Taxes Distort Financing Programs

The most obvious of these are tax considerations. Both common and preferred stock dividends are paid out of profits after taxes, but bond interest is considered to be a tax deductible expense. For **General Motors** to pay out of current earnings the basic $2 dividend on its nearly 280 million shares of common stock, it must earn approximately $1.1 billion before taxes. Similarly, to pay $13 million in dividends on its two classes of preferred stock, General Motors must show pre-tax earnings of approximately $27 million.

Bond interest, on the other hand, is subsidized by the federal tax laws to the extent of 52 cents on the dollar, and the actual net interest cost of debt capital is less than half the stated rate.

NET COST OF $1,000 OF CAPITAL
(After Taxes)

Stated Rate	3 Per cent	4 Per cent	5 Per cent	6 Per cent
Debt Capital	$14.40	$19.20	$24.00	$28.80
Pfd. Stock Capital	30.00	40.00	50.00	60.00

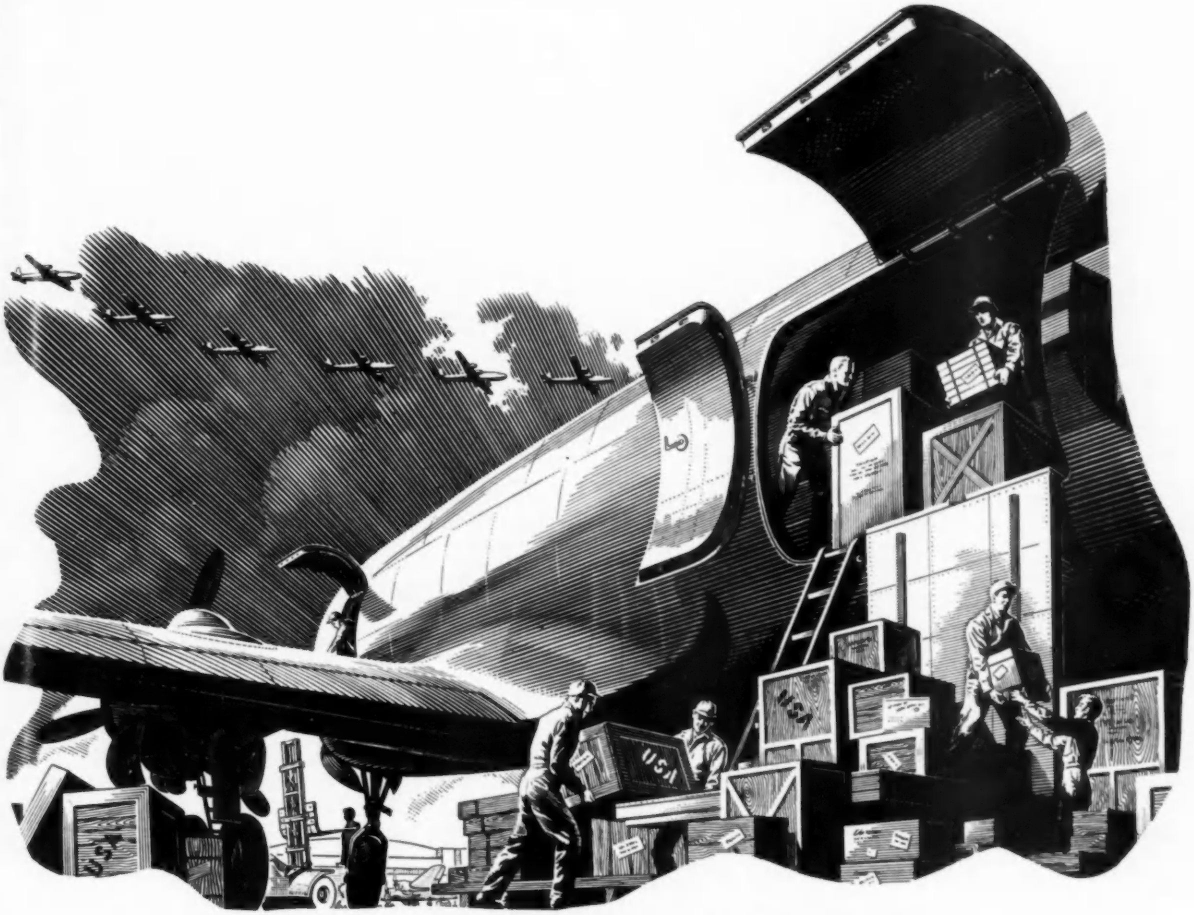
Moreover, because of the basic financial risks inherent in preferred stocks as opposed to bonds, corporations seeking to raise capital with the junior security would have to offer investors a (*Please turn to page* 116)

Distribution of New Corporate Security Issues

By Principal Types
(millions of dollars)

Year	Amount Total	Bonds	Pfd.	Common	Percentage Distribution Bonds	Pfd.	Common
1950	6,361	4,920	631	811	77	10	13
1955	10,240	7,420	635	2,185	72	6	21
1956	10,939	8,002	636	2,301	73	6	21
1957[1]	13,000	9,400	600	3,000	72	5	23

1—Estimated.



The New TARIFF POLICY *To Meet* Import-Export Restrictions

By McLELLAN SMITH

United States foreign trade has an appointment with destiny in 1958: The Reciprocal Trade Agreements Act is partly outmoded and, in part, has been allowed to fall into disuse in its protective aspects; therefore it must be remodeled or relegated.

The stark fact of the export-import situation is that we are losing ground and stand to lose more. By the devices of trade barriers and other protections thrown about the domestic products of many countries with which we trade we find a condition of imbalance developing. "Common markets," whether bearing that name or not, are growing. The European market is formalizing, but it isn't the only one: In Asia, for example, we are trading with some countries, notably Japan, but we are not trading with China; but Japan is trading with China and the arrangement we have today merely sets up Nippon as an additional middleman, giving the Chinese benefits with no reciprocal obligations. "Asia for Asians" is being heard again.

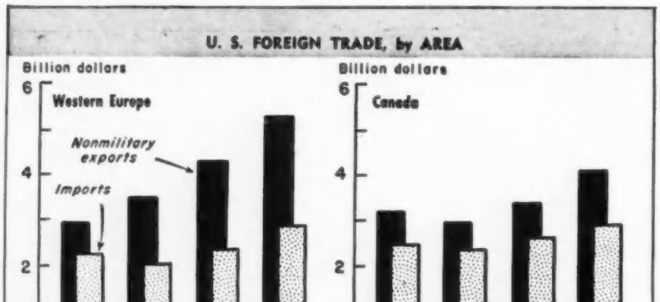
We don't have to cross the seas for proof that our foreign trade policy needs an overhaul. Our friendly neighbor, Canada, through Government-indorsed practices and otherwise, is dictating what part of our economy shall be. Newsprint pricing, for example. It is demonstrated that the Dominion fixes the price for print paper produced here as well as for that which is imported.

The Reciprocal Trade Agreements Act comes up several months hence for renewal, revision, or rejection. Each time in the past (three-year renewals have been the practice) opposition has gained strength. Some believe opponents today are numerous enough, or influential enough, to junk it in 1958; not all of it, but enough of it to insure a more searching examination of "what we are getting in return for what we are giving."

Automatic application of the "peril point" provision when imports begin to threaten domestic production's marketability might placate foes of the trade treaties program. But we haven't had a real protective tariff law in a quarter-century and a mood to write one now is growing under the Capitol dome. There is the conviction in Congress that tariff-making—a legislative responsibility under the Constitution—should again be assumed, not left in the hands of the Executive Branch through the workings of the Reciprocal Trade Agreements Act.

In other years, creation of a Tariff Act has taken more than a single year—a commodity-by-commodity consideration is time consuming. The answer could be a start on a new Act and a limited extension of the present trade agreements statute. One year, perhaps.

Meanwhile the production of substandard labor conditions in other countries is being dumped onto the United States market. Business and industry have appealed to the White House, to the U. S. Tariff Commission and to Congress, for relief. The petition has been ineffectual. The economic malady appears to be one that can be cured only by firm and far-reaching measures which unbraid the tight entanglement that has blended trade with diplomacy and military security in the past two decades. It's a job for Congress.



In tackling the job, Congress will find itself confronted with more than one problem. We have reciprocal trade agreements with 51 countries, about the whole family of nations — Russia and her satellites excepted. Many of these agreements are with nations in which we have costly military installations. Abrogation of trade agreements with them conceivably could impair the outer perimeter of our defense if such abrogation aroused serious resentment. In this situation, the Executive Branch must take responsibility.

Permitting the Act to die would not affect the reciprocal trade agreements now in effect. Such demise would prevent the President, acting through the State Department, from negotiating new agreements but would not bar him from negotiating amendments or changes in existing agreements. Thus we see that termination of the Act, through calendar expiration, would not necessarily give relief to domestic industries now adversely affected by imports from countries with labor costs far below those of the United States. Congress would have the job of deciding which reciprocal treaties must be at once nullified, which should have a definite future termination, and which would run at the pleasure of the President. The alternative would be to make all existing agreements subject to Congressional review, with termination at the discretion of the Legislative Branch.

Study of exports and imports over the 1952-1956 period would indicate the foreign trade advantage to be with the United States. In those five years our exports (exclusive of military materiel) totaled $68.9 billion against $55.6 billion of imports for consumption. Easily overlooked, however, is the fact that of the $69.8 billion of exports, around $25 billion were outright gifts in the form of surplus agricultural commodities, or commodities sold to foreign nations under their original cost to the United States, and usually on long term credit—much of it of questionable eventual payment.

Marshall Plan aid and reciprocal trade were to team up and obviate the necessity of American dollars to bolster war-ravaged economies of other nations. An alluring theory at the time it was advanced, but time has proven it an illusion. We still pour billions in economic aid about the world, foreign nations still dump sub-standard labor products into our economic stream without buying anywhere near an equal amount of our products.

Supporters of the Reciprocal Trade Agreements Act point to the escape clause and peril point as features protective of American industries. The record reveals this to be untrue. In the first place, the machinery for relief is cumbersome and slow—so slow that an industry might die or be slashed to ribbons before relief comes. Petition for relief may originate with the affected industry, Congress or in several of its Committees. However, by the time the Tariff Commission completes its investigation, makes recommendation for relief to the President, and the President acts, the affected industry may be completely submerged by foreign competition. And there is never certainty the Commission will recommend relief or that the President will concur in a Commission recommendation for relief.

The escape clause is included in most of the trade agreements which have been negotiated by the United States under the Trade Agreements Act. In essence, the escape clause provides that either party to an agreement may withdraw or modify concessions made therein, if the article on which the concession was granted enters in such increased quantities as to cause or threaten serious injury to the

domestic industry producing like or directly competitive articles.

An industry desiring relief under the escape clause is confronted with a time-consuming, frustrating procdure. First, a petition is filed with the U. S. Tariff Commission, citing in elaborate detail the damage from foreign competition. In turn, the Commission makes its own investigations, holds public hearings if deemed advisable. The hearings are followed by months of further investigation, after which there is a decision. It may be favorable to the petitioning industry, it may not. If favorable, the Commission reports its findings and recommendation to the President. After his own time-consuming study, the President approves, modifies or disapproves the Commission's recommendation. The time lag between initial petition for relief and final White House action may be 20 months, more likely 30. In the meanwhile, the petitioning industry may be badly decimated, even wiped out.

Applications Under the Escape Clause

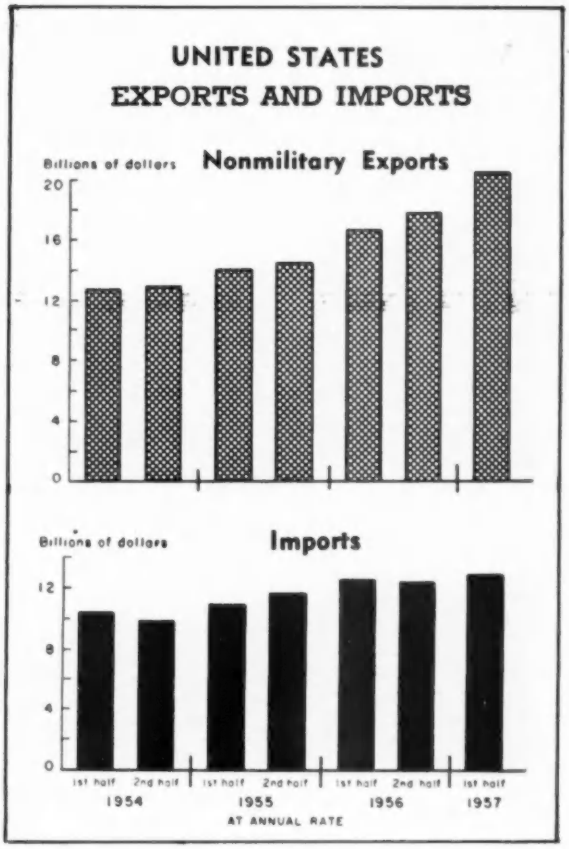
Since the 1951 incorporation of the escape clause in the Reciprocal Trade Agreements Act, 87 applications for relief have been filed with the Commission. Six were dismissed by the Commission at the applicant's request; four investigations were terminated without formal findings; six investigations await decision, 20 investigations remain uncompleted; 14 applications were dismissed after preliminary inquiry; escape action was decided *against* 28 petitioners; 25 applications received favorable action by the Commission and were forwarded to the President, who invoked the escape clause in seven instances, declined to invoke it in 17 others, leaving one for his future decision.

Analysis of the 87 applications discloses only four industries which individually loom large in the national economy. These are crude petroleum and petroleum products, beef and veal, aluminum and its alloys, lead, and cotton carding machinery. A fifth, jeweled watches, although not economically large, is vital to the national defense as a pool of skilled labor for the production of precision instruments necessary to the waging of "push button" warfare. On the Commission's recommendation (after two investigations), the President authorized a tariff hike on Swiss watch movements. White House approval, however, did not come until our jeweled industry had been reduced from five to two manufacturers, and total employment had been halved.

The six other industries in which the President invoked the escape clause were women's fur felt hats and hat bodies, hatter's fur, dried figs, alsike clover seed, bicycles (after two investigations), and toweling of flax, hemp, or ramie.

In addition to the escape clause, the last renewal of the Reciprocal Trade Agreements Act included a provision for the imposition of *quotas* on products whose import threatened a United States industry. It was primarily designed to protect the bituminous coal industry from imports of residual oils, and the domestic oil industry from imports of low priced crude oils. Under the provisions of this new section, the President is authorized to impose quotas after he finds, by investigation, that a product is being imported in quantities injurious to national defense.

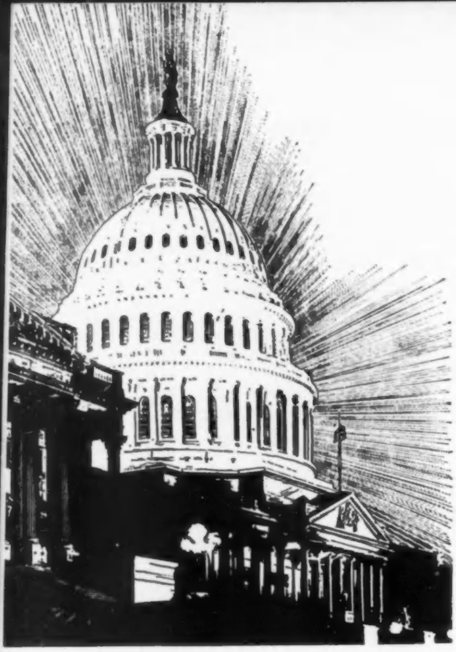
This section has been the cause of numerous bills



to impose various quotas on the importation of residual oils and crudes. Thus far, none have gotten past pigeon holes of the House Ways and Means Committee. In the meantime, the President has caused several investigations to be made, and a few weeks ago he called on the crude importers—voluntarily to keep their imports to 10 percent under imports during the calendar year 1956. Response to the President to impose quotas but for the fact that many of the companies openly avowing their intent to "import all we can." This seemingly puts it up to the President to impose quotas, but for the fact that he gave the importing companies the remainder of the year to comply with his request.

Problem of Oil Imports

In the oil import situation, Congress and the President are confronted with a problem which involves reciprocal trade, diplomacy and maintenance of industries for defense. Stricture on imports of residual oils will be offensive to Venezuela, one of our largest Latin American markets for American manufactured products. Reversing the coin, we find residual imports impairing our bituminous coal industry, vital to our blast furnaces in an all-out war. A reduction of crude oil imports would be offensive to the Arab bloc which we assiduously woo as an Eastern Mediterranean bastion against Russia. On the other hand, a flood tide of Middle East crude very definitely retards domestic production, and markets for that (*Please turn to page* 108)



Inside Washington

By "VERITAS"

COMPLAINT against Eisenhower appointees to Federal regulatory agencies, that they aren't zealous enough in their enforcement of New Deal laws, is the basis of a sweeping investigation planned by the House leadership. Senator Warren G. Magnuson has made a similar protest on the other side of the Capitol, lending credence to reports the probe may turn out two-pronged. The spate of statutes that came in the Roosevelt-Truman years was designed to cut management down to size. Some of Ike's appointees are on record as out of sympathy with the policies involved and have been doing little to enforce the rules, say disgruntled democrats.

WASHINGTON SEES:

Russia's progress in the field of ICBM, and Asian influenza, appear to be running neck-and-neck as topics of potential, if not immediate, destructive force and they have one thing in common: the experts aren't nearly as worried over either as are the amateurs.

And the people who should be credited with knowing best are tiring in the process of assuring the American public that firing of a single prototype intercontinental missile by Soviet engineers doesn't add up to imminent catastrophe, or even prove anything in the arms race. President Eisenhower and the Pentagon must be given credit for honest reporting when they say Russia probably is no farther advanced in this particular than we are. It isn't in the nature of things for a military establishment to picture security as a certainty, and thereby cut down the prospect for bigger, better, newer supplies.

While the Kremlin was boasting of its discovery, its missile expert, General G. I. Pokrovsky, was publicly stating that the ICBM is not the ultimate weapon because, in the General's words, a defense technic can be perfected. The Pentagon goes one step farther: one has been perfected! Many, perhaps a dozen, American aviation companies are working on ballistics and one ICBM is in production today. There have been some setbacks, failures. The difference is that failures are reported under the American system!

EDUCATION has been a news topic linked to violence for the past several weeks, but there's another side to it, one that hasn't been played up. School construction bond sales in August totaled $228.8 million, bringing the total for the 11-month period ended Aug. 31 to more than $2 billion. Another month at this rate (expected to be borne out when figures are compiled) would mean a total of 110,000 new classrooms in a year. This would top the record 1956-1957 construction by more than 40,000 classrooms. It's not a report that gives encouragement to a new campaign for a huge Federal-aid bill. But it won't stop the campaign!

PENSION FUNDS in union treasuries should be invested not only where they will earn interest but also help working people, AFL-CIO pension experts decreed at a conference in Washington. Financing of housing seemed a favored use. Several projects designed for retired union members and their families are being projected. The total in union-controlled funds is a variable figure but the Securities and Exchange Commission said pension funds of corporations totaled $16.5 billion at the end of 1956, with an additional $12.5 billion under insurance company handling.

EXPERIMENT in modernizing the "William Patterson," World War 2 Liberty Ship, has encouraged in the U.S. Maritime Commission a new respect for the 1400 old reserve vessels which have been laid up in the reserve fleet. If carried out wholesale, Liberty vessels such as the Patterson can be made useful for one-fourth the cost of replacement.

As We Go To Press

▶ Senator Harry F. Byrd's not-so-secret weapon for keeping Federal Government expenditures down and starting the move toward tax reduction, is the debt ceiling restriction. It's being strained to the breaking point. If costs are to be permitted to go up in the current fiscal year as they have for several that preceded, a new and higher ceiling must be voted by Congress. Senator Byrd has given the answer, by way of warning: "I shall oppose any increase in the debt limit short of dire national emergency after the President has exhausted all practicable means of spending control." There is little doubt that the ceiling would have been raised this year had Byrd not sounded a similar warning.

▶ In Federal fiscal matters, the Virginia Senator exercises an influence that goes beyond his side of the Capitol and weighs heavily in the House as well. He holds that the President must exercise his authority to hold down expenditures because the reduction in current new appropriations is not self-operative in that direction: it does not affect availability of balances carried over from prior years. These unexpended balances exceed $70 billion and, combined with new appropriations, make approximately $137 billion available in expenditure authorization for Federal agencies. With disbursements in such amounts permissible, the debt ceiling is the only effective insurance against overspending. The statutory ceiling stands at $275 billion. Unless there are economies along the route it shatters.

▶ Senator Byrd charges it would be breaking faith with the American public if the White House allows expenditures to go into deficit financing. However, deficiency appropriation bills already are taking form, ready for submission when it is determined strategically wise to toss them into the hopper. Most agencies have complied with the Budget Bureau regulation which fixes an Oct. 1 deadline for submission of budget estimates for the following year — in this instance, for the fiscal year beginning July 1, 1958. Several of the agencies have taken it for granted that their operating treasures will be replenished by supplements in the next several months and have made allowance for that in requests for next year. Otherwise the figures would be still higher than they are now. And, already, there is proof of a hair-curling new high.

▶ Few believe that the austere monetary diet prescribed for the Pentagon, will be pursued through the year. Rep. Hugh Scott, Pennsylvania, an Eisenhower supporter and former GOP National Committee Chairman, has said: "I think the poorest place to begin severe cuts is in the budget of the national defense program. You have to remember that we began with requests from the services for $48 billion." The figure was pared down in the Budget Bureau and given additional thinning by Congress. Then the administration ordered spending slashed to the rate of $38 billion a year. Some members of Congress say that order was a political strategem to take the heat off the administration, and are frankly so stating in public.

▶ While there is tendency to blame the Pentagon for spending too much and the Eisenhower-Wilson combine for cutting too deeply, there are factors which put the siuation somewhat beyond the reach of any of them. The United States today is at the peak of the so-called double weapons phase: we are busily building all of the uncleur weapons we can for fear that Russia might launch a nucleur war or for fear that we might get into a brush-fire war. Result is that we have to have airplanes that will be obsolete in a few years, missiles that will be superseded by other missiles. Additionally we are preparing for defense and retaliation against intercontinental ballistics missiles. This is a situation never before evperienced in this country: we are building two kinds of weapons at the same time for two

different decades, the 50s and the 60s. Under these conditions the policy seems to be: If it works, its obsolete.

▶ Despite his conservative political record, Rep. Scott seems less perturbed over the prospect of piercing the national debt ceiling. One reason could be that he is less concerned over the holding down the debt than he is over promoting income tax reduction. Much of the campaign to hold the line on the debt is linked to tax cuts. Scott sees the ceiling as a very fragile thing, and he explains: "The cost of things has increased from the time we committed ourselves to buy some of these things. Between $25 and $30 billion was committed as much as three years or more ago. In the three-year period you have had increases. The Secretary (of Defense) uses the figure of four per cent to five per cent. We are on a $38 billion spending program, but we are not buying $38 billion worth of goods any more. If we do buy $38 billion worth of goods, we go right through the debt ceiling."

▶ An increase in the receipts from Federal excise taxes pleased the Treasury but it isn't counted as a permanent gain. Whatever else the next session of Congress does, it is believed certain to cut or wipe out some of the wartime-imposed excise. The Ways & Means Committee hearings which get underway Jan. 7 will have its work cut out. Government revenue for the next fiscal year (beginning July 1, 1958), is estimated in this bracketing: Individual income taxes, $37.5 billion; corporation income taxes, $21.6 billion; excise taxes, $8.7 billion; all other receipts, $5.8 billion.

▶ Of the personal income tax, approximately $22 billions comes from those who pay only the first bracket of 20 per cent. Next, 10 billions comes from the first bracket tax of those who also pay in the higher brackets, and only 5 billions comes from all the progressive tax rates. These progressive taxes go up by steps from 20 per cent to a maximum of 91 per cent of income. A single man or woman reaches the 50 per cent bracket upon reaching a taxable income of $16,000. A married couple, filing a joint return, reaches the 50 per cent tax figure at the $32,000 taxable income level. The income which the Government receives from all those above the 50 per cent bracket is less than 1 per cent of its total take, namely, $700 millions!

▶ The swan song of John B. Hollister when he retired as director of the International Cooperation Administration has Washington taking sides. Hollister enunciated a policy for American foreign economic assistance. As his last official act he directed that all nations be put on notice that henceforth our aid programs will be concentrated on development of private sectors of the foreign economy. Thus, ICA will normally not be prepared to finance publicly owned industrial and extractive enterprises. The retiring Administrtor has kindled fires of disagreement which have been smouldering within the World Bank, Export-Import Bank, and ICA itself.

▶ If the Hollister policy is to be implemented, the program of the International Development Advisory Board must go. So, too, may its chairman, Eric Johnston. Field surveys, extensive ones, have made Johnston conscious of the fact that private enterprise is a laudable aspiration but, for the present as least, an unattainable goal under some of the conditions that prevail abroad. He cites, for example, the opportunity for extractive industries in several lands — but only after the ground work and the know-how has been installed and private capital can see a possibility of return on invested capital.

▶ No one appears to quarrel with the premise that economic cooperation by the United States is not intended to create or enlarge systems of state-operated enterprises. There the chance of successful private American investment is nil. What the effect of the Hollister program might be can best be gauged by specific examples. India, for instance, is asking $500 million (loan) to bolster its five-year plan, much of which involves state-owned industries. But for proper decision in the case of the loan to India it is important to know that the private sector of the Indian economy is proportionately larger than the private sector in this country.

October Beer Festival in Munich

(Above) Harbor action in Bremen
(Below) "Watlenmier" shallow sea.
Between mainland and island

Iron Works — Gelsenkirchener

A Look Behind the Scenes of GERMANY'S PROSPERITY

By JOHN H. LIND

Editor's Note: Our analyst, now in Frankfort, *gives you an on-the-spot appraisal of Germany's current position, as well as the new trends in the making in her export-import and financial position.*

The outcome of the German elections was no surprise in Germany. It had been expected by the defeated Socialists, as much as by the victorious Christian Democrats of Conrad Adenauer, and it was foreseen by many public opinion pollsters.

Still, there was a general uneasiness in the air in the last few weeks before the election which affected both business and government. Trained analysts, despite their firm predictions, knew enough about the inherent unpredictability of a sovereign people at the polls to count in the possibility of an upset which could have swept the Socialists into power. Had this happened the initial effect would have been somewhat similar to the probable first reaction of American business to a political reversal last November: the stock market would have dropped, investment plans would have been temporarily curtailed and a general wait-and-see-and-keep-your-funds-liquid attitude would probably have been adopted.

The situation would have been further complicated by the fact that the Socialists had intimated during the campaign that they would not be averse to an

upward revaluation of the German mark. Thus, the first reaction of foreign speculators would probably have been to transfer as much money as possible into Germany to reap the benefits of any revaluation move.

As it turned out, none of these things happened because no political upset took place. German business is therefore now uttering an audible sigh of relief and is happily returning to its expansion and investment plans while stocks are soaring to new heights. Actually, German business has cause to feel good. The main reason the election turned out the way it did was because the German nation is in the midst of a sustained prosperity which in duration or intensity is historically unique. Adenauer's best election slogan was therefore (translated into American vernacular): "You've never had it so good, so stick with us and don't monkey around with any newfangled economic experiments." The slogan worked admirably. When people are well off they become conservative and when that happens the socialists don't have a chance.

West German Economy

		1956	1954	1950
1. Population	(thousands)	50,595	49,763	47,848
2. Industrial output	(1953 = 100)	138	112	72
Investment goods	(1953 = 100)	158	118	65
Consumer goods	(1953 = 100)	131	109	75
3. Employment	(thousands)	18,134	16,401	13,903
4. Unemployment	(thousands)	763	1,221	1,580
5. Hours worked per week, average for mining and manufacturing		48.0	48.5	48.0
6. Retail sales	(1953 = 100)	119*	107	78
7. Foreign trade—				
Imports c.i.f.	(mil. DM per month)	2,330	1,611	948
Exports f.o.b.	(mil. DM per month)	2,571	1,837	697
Export surplus	(mil. DM per month)	+241	+226	−251
8. Prices—				
Basic materials	(1953 = 100)	106	101	82
Consumer goods	(1953 = 100)	105	100	93
9. Hourly earnings in mining and manufacturing	(DM)	1.94	1.67	1.26
10. Share price index	(1953 = 100)	209	141	62

*1955

Feeling Germany's Economic Pulse

But is this prosperity here to stay? Will Germany continue to increase its export surplus and its dollar earnings month after month? Or are we about to see the end of the German economic miracle? To get an answer to these vital questions I talked to top officials of Prof. Erhard's ministry of economics, the director of the new German national bank as well as leaders of private industry.

All of these people exude optimism regarding German's economic future. Now that the Adenauer policy has won such a resounding victory, Minister Erhard's policy of the "social market economy" (a mixed economy, largely determined by the free forces of supply and demand but with the state acting as the overall guardian to prevent any abuse of the system or discrimination against specific groups) will certainly be continued in full force. This, they believe, is the best guarantee against any decline in their country's economy.

Yet, the trained observer can well detect a certain undertone of caution in the very latest business prognostications. The rise of all indices is still continuing but the rate of increase is beginning to slow down perceptibly. This is such a very recent phenomenon that most commentators on the German economic scene have not yet noticed it in the face of all the glitter of Europe's healthiest economy. It is not even clear that the change is of a structural nature and not just temporary. But there are, very lately, some significant tell-tale signs which American business men would do well to watch.

For one thing, in the last few months the bulk of the *rise* in the country's production and sales has been carried by the export trade. This applies particularly to the capital goods sector. This situation is still continuing. The latest figures show that the export business has been fully maintained throughout August with total exports for the first eight months of this year amounting to $5.7 billion which is a 20 percent increase over the same period of last year. At the same time imports increased by only 16 percent to a total of $5 billion, thus adding another $600 million to Germany's foreign trade surplus. But what is new is that the rate of new orders from abroad has very perceptibly declined during the last couple of months. In the last few years new foreign orders came in regularly at a faster rate than shipments could be made so that the backlog of unfilled foreign orders kept growing. Now, however, new foreign orders are not keeping up with export shipments so that the backlog is, for the first time in years, being reduced.

This in itself is no sign of stagnation but, according to some analysts, it could be the beginning of a trend brought about by the restrictive measures of various foreign countries with growing balance-of-payments difficulties. France would here be an important case in point. Until the first quarter of 1956 France had a significant trade surplus with Germany. Since then, however, this has changed into a much bigger export surplus for Germany, accounting now for some 7 to 8 percent of that country's total export surplus. France's recent restrictions on imports, combined with its de facto devaluation, is expected to have a significant downward effect on German exports. German circles feel that other European countries may well take similar measures in the near future. They point to the recent 40 percent devaluation of the Finnish currency as an example of such measures which are specifically designed to discourage imports and encourage exports.

Will Inflation Catch Up With Germany?

However, not all the changes now in the making are foreign-induced. The main reason for Germany's exceptionally high export trade is, of course, the relatively low level of its prices. As the following table shows, in the last seven years inflation has exerted less pressure in Germany than in most other industrialized countries of the world:

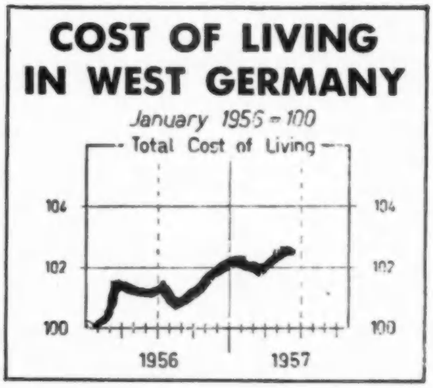
Decline of Purchasing Power
1949-1956

Germany	0.7%	Netherlands	4.2%
Switzerland	1.3%	Denmark	4.8%
Italy	2.2%	Sweden	5.3%
U. S.	2.2%	Britain	5.6%
Belgium	2.3%	Norway	6.3%

Now, however, forces are at work which should, by all principles of economic theory, bring about a decline in Germany's purchasing power too. For one thing, wages have risen by 8 to 9 percent over the last twelve months while productivity has gone up by only 5 to 6 percent. As has been fully demonstrated in the U.S. and Britain, such a situation must lead to either lower profits or higher prices. In Germany it will probably be a combination of both.

The rise in German wages must be viewed historically to be fully understood. In the beginning of the postwar reconstruction period when domestic capital was virtually non-existent and foreign capital was not forthcoming the German labor unions understood the need of business for high profits for the purpose of self-financing. Wage demands were therefore purposely kept down until about 1952. Since then the unions have scrapped their self-imposed restrictions and wages have slowly crept up. However, until about 18 months ago there was still a reservoir of unemployment in Germany. Now, there is as much full employment here as in Britain or France. By all rules of economics, wages can be expected to continue to rise more than productivity. How soon this will make German exports less competitive on the world markets is difficult to say. The first signs of it should appear early next year.

Another feature of interest in this connection is the fact that the frugal, hard-working German citizen of the lower or middle class is now rapidly increasing his role as a consumer. One can find here an almost American-type of desire, not to say craving, among the people for cars, motorcycles, household equipment and gadgets of all sort. This is definitely a new trait and opens up an entirely new market for both domestic and foreign industry. But the economic effect of this will be a rise in prices and in order to pay for these things–higher wages.

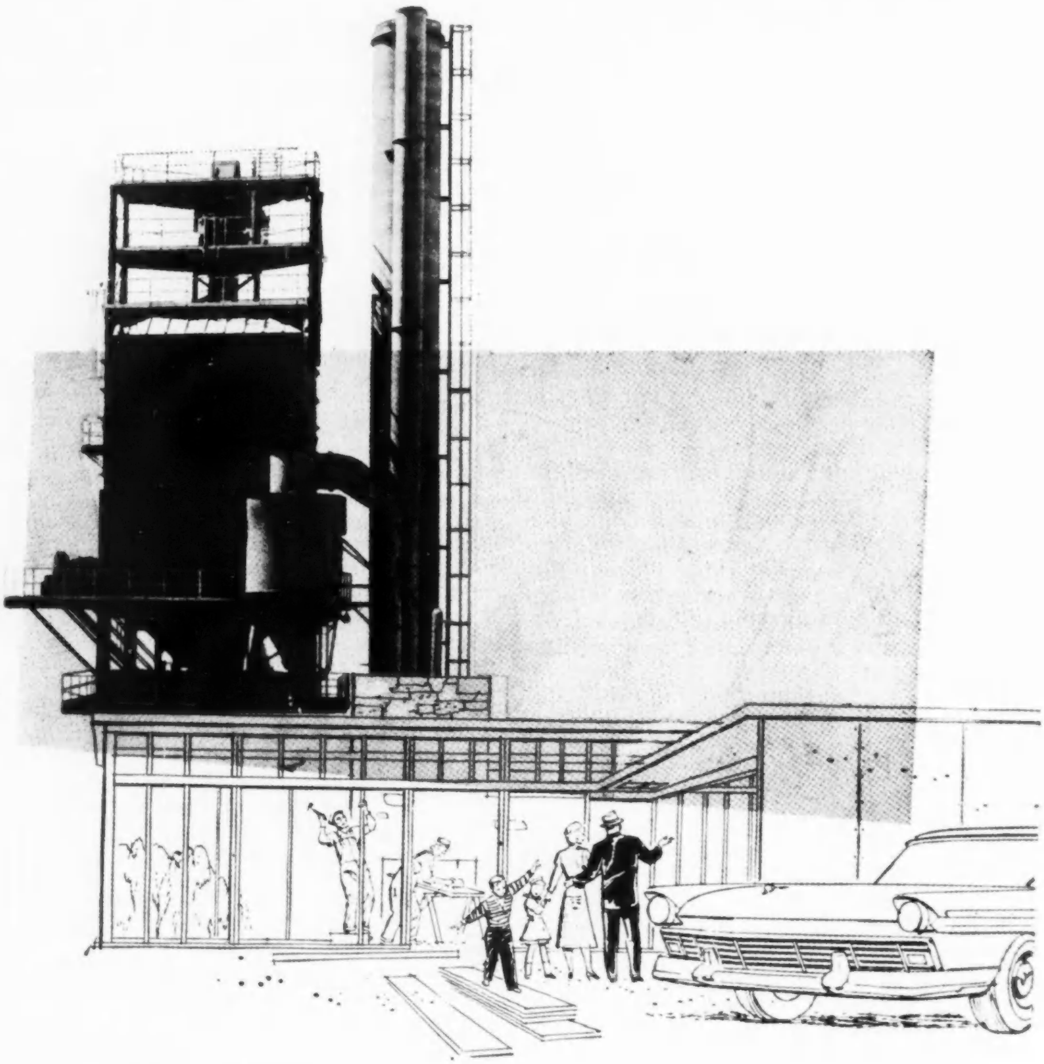


Another potentionally inflationary factor is the government's latest fiscal policy. Since the beginning of the current fiscal year (April 1st) the federal government has been engaging in fairly heavy deficit spending. Where the first four months of the last fiscal year had still shown a budget surplus of about $155 million, during the same period of this year a deficit of some $500 million was recorded. This deficit was not caused by Germany's rearmament expenditures which have not increased from last year. It was therefore mostly the result of civilian expenditures. When defense expenditures increase further – which is bound to be the case now that Adenauer's NATO policy has been so fully endorsed –the deficit should grow further. Of course, Germany can well afford to reduce the huge budget surpluses which it has piled over the last few years. However, this does not change the fact that all deficit spending is, by definition, inflationary.

All this is not to say that the German government, or, for that matter, anyone in Germany, is actively pursuing an inflationist policy. On the contrary, the German central bank has increased reserve requirements and by means of its open-market operations is attempting to prevent too rapid an increase in the volume of money. Recently, however, it has been only partially successful. Cost-of-living stability which had been such an important factor in Germany's prosperity has been steadily moving upward since May. All the signs point to further increases in the coming months.

Capital Spending Tailing Off — Competition Growing for Consumer's Funds

The sum total of all these trends is still a somewhat mixed situation. Investment goods, largely dependent on export, are no longer doing so well. In fact, in July, investment goods production for the first time in two years fell below the level it had attained in the same month of the previous year. Consumer goods are still doing well because of the growing effective internal demand. However, this branch of the economy will from now on be more and more subject to foreign competition, particularly from the U. S. This is due to the government's active policy of import liberalization which has just brought a 25 percent reduction of most industrial custom duties. This, together with almost complete liberalization of non-agricultural dollar imports, has opened the German market widely to American business. Whether this will, (*Please turn to page* 108)



APPRAISING INVESTMENT CALIBER of FINANCE COMPANIES TODAY

By CHARLES GRAYSON

President Eisenhower's announcement earlier this year that he would not seek credit controls on instalment-type buying sparked a pronounced revival of investor interest in the shares of the major finance companies, which in the recent period of market weakness have evidenced better than average stability. Not only are 1957 profits of most leading companies in this group expected to exceed last year's high levels, but even more important at this moment of market reappraisal is the fact that the industry's long term outlook continues to be promising.

While it is certain that the years ahead will not be without problems for the industry, it seems equally sure that the important position which credit has assumed in our economy bespeaks stability and progress for these companies. Competition from other lenders, higher costs of refunding old debt and raising additional capital, as well as the numerous other rising operating expenses tend to place increasing emphasis on superior managements, which is a particular fortè of the major companies in this group. The outlook for rising profits is good, although the advance in the coming years will be less rapid than in the decade following World War II; dividends are expected to continue to develop apace. The current attraction of finance company issues for sophisticated investors is based on a combination of high yield and long term growth potential. However currently these shares are selling at

roundly 10 times last year's earnings for an average yield of better than 6%, which is high for a stock of this caliber in today's market.

Historical Developments

Important economic and sociological factors have sparked the growth of the finance companies in the past decade. The middle class, which has expanded so rapidly in the years following the 2nd great war, has utilized installment financing to the largest extent in order to relieve the pent-up demand at the end of the war. The migration of families to suburbia has developed a vastly broadened automobile market, together with a demand for a wide variety of appliances facilitating suburban living. Without doubt one of the most important aspects of the industry's growth has been the social acceptance of debt, a major change from the pre-war era when this custom was most certainly not embraced as enthusiastically.

Total Consumer Debt Now Half Disposable Income

Consumer credit is a relatively recent development, with the practice of paying for prior commitments from future earnings first attaining popularity in the years following the 1st World War. The entry of commercial banks into this field in the 1930's gave a real boost to this type of credit, which then soared in popularity in the years following the 2nd World War. During the last war, the curtailed production of consumer durable goods, credit restrictions and the emphasis on savings resulted in a sharp decline in consumer credit, but the subsequent recovery was spectacular, particularly after the elimination of Regulation W in 1952.

Total consumer credit outstanding advanced more than $30 billion in the past decade to $41.9 billion at year-end 1956, the sharpest annual gain of 20% having been scored during 1955. Aggregate disposable income, on the other hand, rose some $118 billion, in the past decade to $286.7 billion at the end of 1956. The magnitude of consumer credit and its dynamic advance is underscored in the rise of the ratio of total consumer credit to disposable income from 6.8% in 1947, to 10.4% in 1950 and to a record peak of 14.6% at the close of 1956. Equally important in the nation's credit picture is the enormous $71.6 billion rise in mortgage debt during the past 10 years to $99.2 billion at the close of last year; related to disposable income this is a climactic advance from 17.7% to 34.6%. Total consumer credit and mortgaged debt rose from $39.8 billion at year-end 1947 to $141.1 billion at the close of 1956, or from 23.5% of total disposable income to 49.2%.

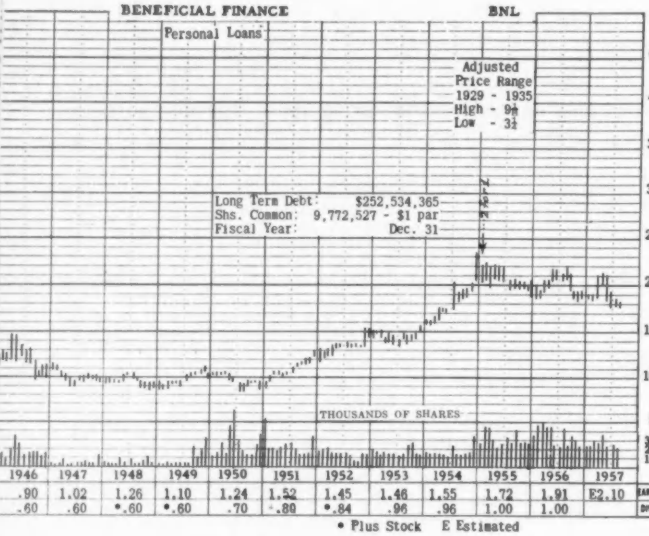
There seems no question that without the institution of consumer credit, the nation would never have achieved the high standard of living enjoyed today. By and large, the loudest objections to the level of consumer credit today stem from the nation's senior citizens who recall the economic difficulties of the 1930 era. In rebuttal, it can be clearly pointed out that the consumer credit industry has achieved a strong record, having been particularly careful—with the assistance of various regulatory authorities—to insure that the terms of instalment sales contracts were properly related to the value of the item sold, and that consumer loans were made with a clear regard for payment ability.

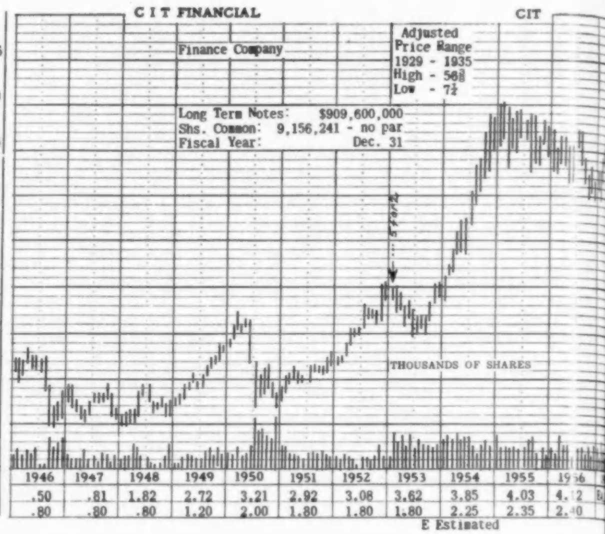
What kind of business do finance companies do? They extend credit to many millions of consumers

Statistical Data on Leading Finance Companies

	1955		1956		1957				
	Earnings Per Share	Div. Per Share	Earnings Per Share	Div. Per Share	1st 6 Months Earnings Per Share	Indicated Div. Per Share	Price Range 1956-57	Recent Price	Indicated Div. Yield
American Investment Co. (Ill.)	$1.30	$ .85	$1.29	$1.00	$ .70	$1.00	17¾-15	16	6.2%
Associates Investment Co.	5.86	2.00	5.93	2.40	3.01	2.60	78 -55	70	3.7
Beneficial Finance Co.	1.50	1.00	1.76	1.00	.93	1.00	22⅛-17½	18	5.5
C. I. T. Financial Corp.	4.03	2.35	4.12	2.40	2.10	2.40	47½-39⅜	40	6.0
Commercial Credit Co.	5.22	2.65	5.26	2.80	2.66	2.80	54 -44⅞	46	6.0
Family Finance Corp.	2.29[1]	1.42½	2.22[1]	1.50	2.39[1]	1.52½	25½-21¾	24	6.3
General Acceptance Corp.	1.32	1.00	1.45	1.00	.74	1.00	16½-14¼	14½	6.9
General Contract Corp.	1.61	.60[2]	1.55	.40[2]	.72	.40[2]	17⅝-11⅝	12	3.3
General Finance Corp.	2.02	.75	2.04	.80	1.20	.90	19⅞-15¾	19	4.7
Heller (Walter E.) & Co.	2.00	.90	2.23	1.10	1.04	1.15	18⅜-16	16½	6.9
Household Finance Corp.	2.19	1.20	2.70	1.20[2]	1.51	1.20	30 -24½	29	4.1
Pacific Finance Corp. (Calif.)	4.26	2.00	4.28	2.00	2.33	2.30	43⅞-31⅝	38	6.0
Seaboard Finance Co.	1.16[3]	.90	1.40[3]	.97½	1.04[4]	1.00	19⅞-16¼	16½	6.0

1—Years ended June 30.
2—Plus stock.
3—Years ended Sept. 30.
4—9 months ended June 30.





BENEFICIAL FINANCE CORPORATION

BUSINESS: Company is second largest organization in small loan field, with the largest branch system in the industry. Offices numbered 1,023 at year-end 1956, and were located in 44 states, Hawaii, Alaska and Canada, with about 200 outlets in Canada. The number of branches has more than doubled since 1946, the largest growth having occurred in Canada.

OUTLOOK: Earnings last year equalled $1.91 a share, advancing from $1.72 a year earlier. The up-trend in earnings is expected to continue, with profits perhaps reaching the $2 a share level of this year. As a result of the new small loan law in Canada, which has the effect of reducing financing rates in that country, Beneficial Finance will probably curtail unprofitable loans of smaller amounts, and close some offices for the sake of economy. Volume in Canada is expected, therefore, to decrease this year. But branches recently opened in the United States will begin to contribute to profits, and volume in the United States is expected to reach new peak levels. Continued favorable employment projections suggest continued high demand for consumer credit.

DIVIDENDS: Cash payments, made each year since 1929, have risen steadily in the past decade, and have been periodically supplemented by stock dividends. In the five years ending 1956, cash dividends have averaged a healthy 59% of earnings, and currently equal $1 a share plus extras.

MARKET ACTION: Holders of the common shares have been rewarded by a consistent price rise in the years following the 2nd World War, the highest level of $23¼ having been reached in 1954. The stock is now selling some four points below this year's high of $21¼ at which level the shares yield roundly 5.6%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1947	June 30 1957	Change
ASSETS		(000 omitted)	
Cash & Marketable Securities	$ 15,730	$ 21,977	+$ 6,247
Install. Notes Rec.	111,068	443,584	+ 332,516
Miscell. Rec. Net	291	491	+ 200
TOTAL CURRENT ASSETS	127,088	466,052	+ 338,964
Investments	749	495	— 254
Real Estate, Net	097	1,362	+ 1,265
Furn. & Fixtures	791	5,378	+ 4.587
Deferred Charges	731	2,459	+ 1,728
Carrier Properties	3,244	....	— 3,244
Other Assets	557	4,122	+ 3,565
TOTAL ASSETS	$133,258	$479,868	+$346,610
LIABILITIES			
Loans Payable	$ 26,557	$ 68,154	+$ 41,597
Accounts Payable	2,952	1,922	— 1,030
Accruals	6,132	13,080	+ 6,949
Income Tax Reserves	3,627	12,158	+ 8,531
TOTAL CURRENT LIABILITIES	39,268	95,313	+ 56,045
Reserves	....	2,839	+ 2,839
Long Term Debt	40,000	252,721	+ 212,721
Preferred Stock	10,000	29,318	+ 19,318
Subs. Preferred Stock	....	4,000	+ 4,000
Common Stock	23,831	9,773	+ 14,058
Minority Interest	012	047	+ 035
Surplus	20,147	85,857	+ 65,710
TOTAL LIABILITIES	$133,258	$479,868	+$346,610
WORKING CAPITAL	$ 87,820	$370,739	+$282,919
CURRENT RATIO	3.2	4.9	+ 1.7

CIT FINANCIAL CORPORATION

BUSINESS: Company is nation's largest publicly-owned finance company. While automobile financing provides the major source of its income, diversification is obtained through three factoring subsidiaries, an industrial financing organization and related insurance operations.

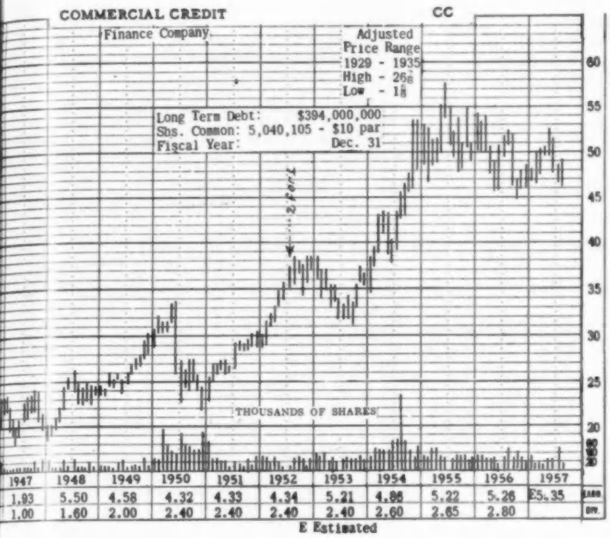
OUTLOOK: The instalment credit business has enjoyed impressive growth over the past decade, and CIT has grown right along with it. Last year's earnings of $4.13 per share were more than five times those reported for 1947, while receivables outstanding increased almost four-fold. Moreover, the company now commands total resources in excess of $2 billion against $684 million ten years ago. Earnings for this year are estimated to reach $4.25 a share, and dividends are expected to remain at 60 cents quarterly. The company's industrial financing subsidiary, The CIT Corporation, holds particular potential for rapid future growth. The huge prospective expenditures to be made for modernizing and expanding the U. S. highway system are expected to be of substantial benefit to the CIT Corporation, a principal supplier of financing for contractors' equipment.

DIVIDENDS: The last ten years have proven increasingly bountiful for CIT stockholders, the current annual payment equalling $2.40 per share. CIT has paid dividends in every year since 1921, the payout having averaged 57% in the five years ending 1956. The yield of these shares at present prices is some 5.8%.

MARKET ACTION: The stock has enjoyed conservative price appreciation during the past ten years, but in recent months declined some five points from this year's high of $47. The top price of $50⅜ in the post-war period was reached in 1955.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1947	June 30 1957	Change
ASSETS		(000 omitted)	
Cash & Marketable Securities	$122,929	$ 211,696	—$ 88,767
Net Notes & Accounts Rec.	538,508	2,108,895	+ 1,570,387
Other Current Assets	4,202	....	— 4,202
TOTAL CURRENT ASSETS	665,639	2,320,591	+ 1,654,952
Repossessed Cars, etc.	171	1,351	+ 1,180
Investments	10,864	39,906	+ 29,042
Other Assets	1,705	16,326	+ 14,621
TOTAL ASSETS	$678,379	$2,378,174	+$1,699,795
LIABILITIES			
Notes Payable	$315,196	$ 962,284	+$ 647,088
Accts. & Taxes Payable	22,731	47,193	+ 24,462
Dealers Reserve	6,924	35,515	+ 28,591
Accruals	2,040	16,782	+ 14,742
Mfg. Cr. Bal., etc.	59,226	56,460	— 2,766
TOTAL CURRENT LIABILITIES	406,117	1,118,234	+ 712,117
Reserves	13,709	3,500	— 10,209
Unearn. Ins. Prem.	46,806	52,495	+ 5,689
Port. of Chgs. on Rec. in Fut. Earn.	....	142,669	+ 142,669
Long Term Debt	108,000	824,500	+ 716,500
Common Stock	55,505	56,770	+ 1,265
Minority Interest	058	....	— 058
Surplus	48,184	180,006	+ 131,822
TOTAL LIABILITIES	$678,379	$2,378,174	+$1,699,795
WORKING CAPITAL	$259,522	$1,202,357	+$ 942,835
CURRENT RATIO	1.6	2.0	+ .4



COMMERCIAL CREDIT COMPANY

BUSINESS: The company is second largest independent instalment sales finance company in the United States, with the chief source of its income derived from automobile financing. Commercial Credit has diversified its operations through accounts receivables financing, factoring and various manufacturing activities.

OUTLOOK: Earnings in 1956 equalled $5.26 a share ,advancing slightly from $5.22 a year earlier, with another moderate increase to the $5.35 a share level in sight for this year. Dividends are expected to continue at the conservative rate of 70 cents quarterly. Growth of the company in the post-war period has been outstanding, with total assets of $1.6 billion at the close of last year more than three times the level at the end of 1947. Total receivables outstanding at the end of 1956 aggregated almost $1.3 billion. Approximately 60% of the company's net income is derived from lending activities, the balance stemming from the correlary insurance operations and manufacturing subsidiaries. Improved operations of the insurance subsidiary, which are in sight for next year as a result of recently approved rate increases, combined with the good potential of the manufacturing subsidiaries, serve to underscore the attractive long term potential of these shares.

DIVIDENDS: Cash payments have been expanded impressively following the 2nd World War, and currently equal $2.80 per share. In the five years ending 1956, the cash payout has averaged a conservative 51% of earnings. Dividends have been paid each year since 1934, and at present market levels yield 6%.

MARKET ACTION: The stock reached a post-war high of $57¼ in 1955, and is now down five points from the year's high of $52¾. The market price of these shares has exhibited good growth in the past decade.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1947	June 30 1957	Change
	(000 omitted)		
ASSETS			
Cash & Marketable Securities	$ 50,686	$ 169,216	+$ 118,530
Total Receivables	378,199	1,425,781	+ 1,047,582
Less Reserves; Unearned Inc. & Rec. Loss	20,757	96,652	+ 75,895
Receivables, Net	357,442	1,329,129	+ 971,687
Other Receivables	2,204	10,755	+ 8,551
Inventories, Mfg. Cos.	4,945	19.435	+ 14,490
TOTAL CURRENT ASSETS	415,277	1,528,535	+ 913,258
Net Prop., Mach., Equip.	4,971	25,076	+ 20,105
Investments	39,462	6,399	— 33,063
Co. Cars & Repossessions	134	2,637	+ 2,503
Other Assets	13,249	11,475	— 1,774
TOTAL ASSETS	$473,093	$1,574,122	+$1,101,029
LIABILITIES			
Unsecured Short Term & Sub. Notes	$258,988	$ 729,083	+$ 470,095
Credit Bal. Payable	11,471	20,043	+ 8,572
Accr. Inc. & Other Taxes	8,398	20,125	+ 11,727
Misc. Acc. Pay. & Accruals	18,442	18,770	+ 348
Reserves	32,306	55,694	+ 23,388
TOTAL CURRENT LIABILITIES	329,605	843,715	+ 514,110
Unearned Prem. Ins. Cos.	....	32,204	+ 32,204
Long Term Debt	60,000	489,000	+ 429,000
Minority Interest	190	072	— 118
Preferred Stock	25,000	....	— 25,000
Common Stock	18,415	50,435	+ 32,020
Surplus	39,883	158,696	+ 118,813
TOTAL LIABILITIES	$473,093	$1,574,122	+$1,101,029
WORKING CAPITAL	$ 85,672	$ 684,820	+ 599,148
CURRENT RATIO	1.2	1.8	+ .6

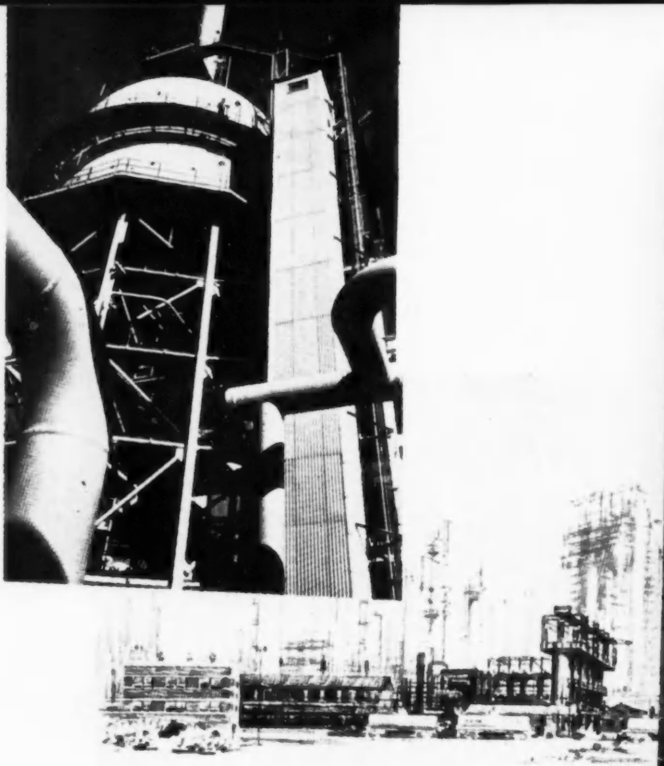
and provide such corollary services as credit life insurance for personal loans, and the insuring of automobile loans for fire, theft and collisions. The finance companies can be broadly broken down into two main divisions: sales finance companies and instalment loan organizations.

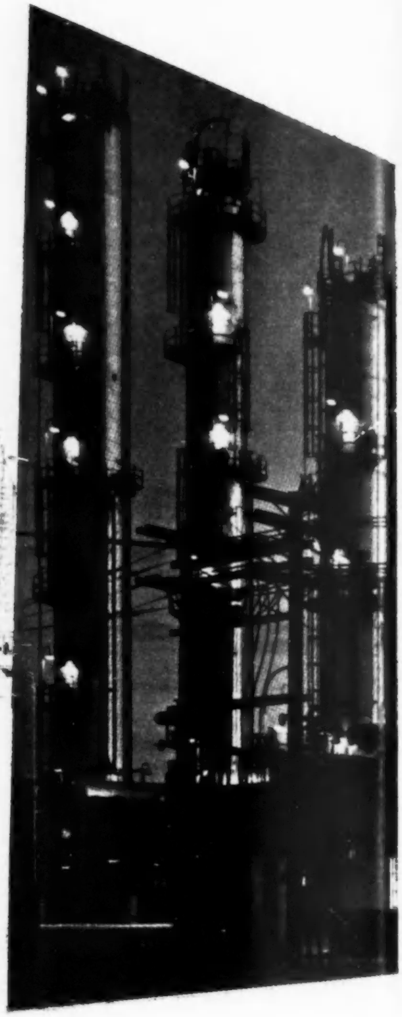
Sales Finance Companies

The sales finance companies, which handle over three-quarters of the total consumer credit, are mainly engaged in the writing of loan contracts on durable goods. While financing the sale of autos is the principal business of the leading sales finance companies, such other durables as furniture, kitchen and many other household appliances are also being financed in increasing volume. At the end of last year, retail automotive paper constituted 88.8% of all instalment credit held by finance companies, with other retail paper equalling 5.4% and personal loans accounting for 5.8%. While there was almost no perceptible change in the proportion of the business in 1950, the 1939 figures showed major differences equalling respectively 73.3%, 22.0% and 4.7%. Lately, the major sales finance companies have been most successful in finding new ways to put money to work—such as CIT's recent participation in the American Overseas Finance Co., formed to finance foreign exports of machinery and other durable goods. The five major publicly owned sales finance companies are the CIT Financial Corporation, Commercial Credit, Associates Investment, Pacific Finance and General Finance.

That the instalment credit business has enjoyed impressive growth during the past decade is clearly illustrated by the rise in total instalment credit from the ...6.7 billion at year-end 1947 to $31.6 billion at the close of 1956. Expressing it in terms of disposable income, the business advanced from 4.0% to a peak of 11.0%. In this 10-year period, automative paper rose from $1.9 billion to $14.4 billion last year, when an estimated 70% of all new cars and 85% of used automobiles sold at retail involved some use of credit. On the other hand, only 45% of new cars and 65% of used autos were sold on credit before World War II. In this connection, it is interesting to observe that the instalment sales finance companies with well developed new car dealer relationships are in a comparatively favorable position, as the amount of credit extended by these companies for financing new retail automobile sales in recent years has considerably exceeded the volume of credit for used cars, last year's break-down having been 64% new autos and 36% used cars.

The volume of business available to finance companies, as well as the terms of financing, are determined in large part by general economic conditions. It seems clear that the main long term factor affecting finance company earnings has been the volume of business obtained by the individual organizations. This volume has had to be raised appreciably because of the continued rise in operating costs during recent years; in this endeavor, the leading companies have been highly successful. In recent years, borrowers have been paying off their loans almost as fast as new debt has been incurred. As a result, turn-over has been at record levels, and it is this run-off of instalment receivables on hand which is a particularly important (*Please turn to page* 110)





Evaluating Position and Outlook for 75 LEADING STOCKS

— An up-to-the-minute realistic approach providing direct and valuable help necessary to maintain a sound investment position today

By HAROLD M. EDELSTEIN

Periodic reappraisals of one's security holdings has always been the first principal of sound investment practice. Today it is imperative. Not because the market is displaying weakness—it has done that before. But because it is becoming generally apparent that the market is in the throes of inexorable fundamental changes.

This is not a prediction of a major bear market in the immediate future. Rather it is an indirect way of saying that the conditions which determined the formulation of most investment policies in the past few years no longer apply. A successful investment program now requires a new set of ground rules.

Although most investors consciously or not, gear themselves to the investment tempo of the times, the greatest rewards go to those who attune themselves earliest to trends in the making. Thus, investors who became "growth" conscious in the early 1950s reaped substantially greater profits than those who came along later, and were forced to take more speculative risks to realize lesser gains. But more importantly, as "growth" gradually entrenched itself firmly in market psychology, it became the *raison d'etre* for most investment programs. To be sure, the more conservative confined their holdings to widely held, sound securities that would "grow with the economy" (a policy which paid off handsomely in the recent bull market), while the more adventurous sought out the undervalued, the special situation and the outright speculation. But whichever path they chose, their objectives were usually dictated by the prevailing investment atmosphere. Skill in selecting the proper securities determined whether the program met its objectives.

Appraising Securities Today

Investment principals now are no different. A combination of skill, defined as the technical "know-how" of securities appraisals—and clearly defined

Vital Statistics on 75 Leading Stocks

	Book Value 1947	Book Value 1956	Retained Earnings Per Share 1947 to 1956	Net Working Capital 1956 (Mil.)	1955 Net Per Share	1956 Net Per Share	Indicated 1957 Div. Per Share	Recent Price	Div. Yield	Rating
Allied Chemical & Dye	$26.50	$40.01	$18.39	$162	$5.44	$4.74	$3.00	77	3.7%	A2
Aluminum Co. of America	10.01	29.35	25.07	190	4.18	4.24	1.20	74	1.6	H2
American Can	15.86	27.90	14.30	135	2.97	2.90	2.00	43	4.6	H1
American Gas & Electric	7.58	17.00	10.97	9	1.94	2.03	1.44	33	4.3	H1
American Tobacco	38.41	59.45	24.64	558	7.45	7.51	5.00	73	6.8	B1
Armco Steel	18.37	39.45	21.56	191	6.05	6.03	3.00	53	5.6	H3
Atchison, Top. & S. Fe	32.73	44.70	14.30	87	2.94	2.64	1.60	21	7.6	S3
Babcock & Wilcox	8.55	23.57	44.65	106	2.62	2.74	1.00	31	3.2	H2
Bendix Aviation	20.42	37.48	20.74	112	5.66	5.04	2.40	47	5.1	S3
Bethlehem Steel	14.73	31.28	65.95	684	4.52	3.83	2.40	41	5.8	A2
Borg Warner	12.40	30.95	47.77	182	5.17	4.01	2.40	36	6.6	H2
Caterpillar Tractor	9.51	21.17	14.68	93	4.18	6.08	2.40	75	3.2	A2
Chicago R. I. & Pacific	68.56	96.16	51.96	19	5.54	5.38	2.70	28	9.6	S3
Chrsyler Corp.	37.36	74.18	35.07	208	11.49	2.29	4.00	72	5.5	H2
Coca-Cola	30.20	43.26	19.49	97	6.44	6.89	5.00	96	5.2	H2
Consol. Edison N. Y.	23.37	43.97	6.06	12	3.12	3.20	2.40	42	5.7	BH1
Continental Can	21.00	30.10	23.58	633	3.29	3.72	1.80	44	4.0	H2
Corn Products	10.74	18.20	7.07	51	2.29	2.36	1.50	30	5.0	B1
Corning Glass	3.38	13.27	8.78	48	2.76	2.72	1.50	83	1.8	H2
Crown Zellerbach	4.15	24.15	33.54	132	3.11	3.53	1.80	44	4.0	A3
Detroit Edison	13.34	28.34	5.18	2	2.43	2.36	2.00	39	5.1	H1
Douglas Aircraft	19.00	41.29	16.83	87	7.65	8.96	4.00	60	6.6	H3
Dow Chemical	3.74	15.74	8.35	143	1.64	2.52	1.20	54	2.2	A2
Du Pont	15.09	41.44	12.74	629	9.26	8.19	6.50	179	3.6	H1
Eastman Kodak	21.90	27.88	17.59	264	4.66	4.89	2.65	93	2.8	H2
General Amer. Transport	27.00	53.94	14.65	74	5.25	5.71	3.60	78	4.6	H1
General Dynamics	1.22[1]	18.40	8.90	132	2.84	4.14	2.00	50	4.0	H1
General Electric	4.73	13.54	6.86	590	2.40	2.45	2.00	60	3.3	H2
General Foods	10.46	19.87	17.89	188	3.31	3.61	1.95	46	4.2	H1
General Motors	4.62	15.13	9.67	1,746	4.26	3.01	2.00	40	5.0	H2
Goodrich (B. F.)	15.91	41.83	23.65	245	5.26	4.90	2.20	65	3.3	A1
Goodyear Tire & Rubber	19.89	42.77	26.43	451	5.90	6.03	2.40	78	3.0	A1
Grand Union Co.	4.27	14.09	5.71	14	1.90	2.43	.69[2]	34	2.0	H1
Gulf Oil	29.93	64.43	46.31	393	8.19	9.54	2.50[2]	128	1.9	A2
Ingersoll Rand	8.18	22.06	14.76	122	4.54	5.96	4.00	73	5.4	H1
Inland Steel	31.02	65.76	39.23	204	9.52	9.43	4.50	85	5.2	H2
International Harvester	31.25	48.98	17.47	425	3.60	3.16	2.00	32	6.2	H2
International Nickel	16.68	30.78	13.60	245	6.15	6.50	3.75	79	4.7	A3

[1]—Then Electric Boat Co. [2]—Plus stock.

RATING KEY: B—Buy. H—Hold. S—Sell. A—Suited for averaging.
1—Rising earnings. 2—Stable earnings. 3—Declining earnings.

objectives, are still the essential tools.

The appraisal of any corporation must begin with a careful analysis of the basic facts and figures. Demonstrated earnings power is of course, the most important consideration, both as the determinant of dividends, and as the most influential factor in regard to the market price for the shares.

But the vital statistics in the accompanying list of 75 leading stocks are essential for determining the underlying worth of a company. Equally important, they provide a concrete and readily definable standard by which the company can be measured against others in its price class or industry grouping.

Of course, in each case it is necessary to look behind the figures for more sophisticated analysis. Take book value, for example, the first column in our table. From the accounting viewpoint, it represents total net assets of the corporation – which naturally have been expanding in the last decade of enormous capital expansion. But from an investment standpoint, its importance is measured by its productivity and earning power only.

Retained earnings, the next column in the table, is the amount of net income the corporation has withheld as a means of financing its own growth, or enhancing its financial position. It may be used for building plants, acquiring other companies, or for automation facilities—or merely for research and product development. The test is whether retained earnings are plowed back in a way that will augment earning power.

Working capital, the 3rd item, is the best indicator of the company's financial condition. In simple accounting terms, it represents the excess of current assets over current liabilities. But particularly today, the investor must break down the working

Vital Statistics on 75 Leading Stocks — (Continued)

	Book Value 1947	Book Value 1956	Retained Earnings Per Share 1947 to 1956	Net Working Capital 1956 (Mil.)	1955 Net Per Share	1956 Net Per Share	Indicated 1957 Div. Per Share	Recent Price	Div. Yield	Rating
International Paper	$17.95	$54.55	$37.10	$186	$7.81	$7.05	$3.00	87	3.4%	A3
International Salt	24.00	53.33	32.12	7	10.08	10.76	5.50	105	5.2	H1
International Tel. & Tel.	38.13	50.99	16.53	65	3.21	3.92	1.80	29	6.2	H2
Johns-Manville	11.94	28.90	12.66	41	3.67	3.50	2.25	40	5.6	H3
Kennecott Copper	43.90	66.83	26.52	328	11.60	13.23	6.00	90	6.6	H3
Lorillard (P.)	20.17	24.84	5.89	110	2.07	1.34	1.20	23	5.2	H1
Louisville & Nashville	103.95	149.26	66.21	58	10.53	10.70	5.00	67	7.4	H2
Macy (R. H.) & Co.	30.69	40.47	10.40	59	2.64	3.06	2.00	28	7.1	H2
Monsanto Chemical	3.58	17.44	8.44	162	1.99	1.80	1.00	32	3.1	H2
Montgomery Ward & Co.	30.80	48.34	42.55	611	2.62	2.65	2.25	34	6.6	H3
National Biscuit	16.01	23.66	9.00	50	2.59	2.96	2.00	38	5.2	B2
National Cash Register	7.88	16.11	11.29	99	2.33	2.62	1.20	57	2.1	H2
National Lead	8.40	18.81	8.90	117	4.02	5.23	3.25	102	3.1	A1
National Steel	27.45	57.04	30.77	140	6.54	7.09	4.00	63	6.3	H2
Pacific Gas & Electric	14.32	37.47	7.00	[d] 46	3.32	3.37	2.40	45	5.3	H2
Phillips Pete	14.25	28.44	26.51	173	2.78	2.77	1.70	40	4.2	H2
Procter & Gamble	10.81	21.20	21.23	153	2.96	3.05	2.00	50	4.0	BH1
Radio Corp. of America	1.46	12.91	12.60	300	3.16	2.63	1.50	32	4.6	H2
Republic Steel	24.53	42.84	23.78	245	5.59	5.83	3.00	48	6.2	H2
Reynolds Metals	3.80	23.94	16.78	126	3.41	3.93	.65	47	1.3	H3
Reynolds (R. J.) Tobacco	18.25	33.33	20.77	463	5.05	5.91	3.30	59	5.5	B1
Sears Roebuck	5.01	15.06	9.46	743	2.15	2.20	1.00	27	3.7	H2
Socony Mobil	21.14	48.62	28.64	590	4.76	5.70	2.50	52	4.8	B2
Southern Pacific	127.25	135.28	42.17	95	6.22	6.01	3.00	37	8.1	H3
Standard Oil N. J.	9.23	26.27	15.05	1,650	3.61	4.11	2.20	59	3.7	H1
Texas Co.	15.89	33.49	35.83	598	4.79	5.51	2.50	66	3.7	H1
Texas Gulf Sulphur	6.83	10.70	7.51	64	3.23	2.81	2.00	21	9.5	S3
Union Bag—Camp Paper	4.84	18.22	12.68	31	2.43	3.02	1.50	30	5.0	H3
Union Carbide Corp.	15.54	26.97	18.54	477	4.86	4.86	3.60	106	3.4	A2
Union Pacific	24.37	35.25	72.81	121	3.39	3.36	1.60	26	6.1	H2
United Aircraft	19.90	34.57	15.39	376	6.14	7.06	3.00	63	4.7	A1
U. S. Gypsum	13.55	27.67	15.31	83	4.98	5.01	2.40	59	4.0	H3
U. S. Rubber	18.96	40.00	23.30	285	5.24	4.83	2.00	39	5.1	A1
U. S. Steel	24.56	46.72	19.81	604	6.45	6.01	3.00	60	5.0	H1
Vanadium Corp.	9.41	31.70	11.97	19	4.65	4.72	2.00	34	5.8	H3
Westinghouse Electric	27.31	42.84	19.10	687	2.46	.10	2.00	60	3.3	H1
Woolworth (F. W.)	54.73	72.40	10.82	119	3.52	3.57	2.50	40	6.2	H1

[d]—Deficit. [1]—Plus stock.

RATING KEY: B—Buy. H—Hold. S—Sell. A—Suited for averaging.
1—Rising earnings. 2—Stable earnings. 3—Declining earnings.

capital position into component parts to determine what portion is in the form of cash or equivalent, and what part represents inventories, goods in process, or accounts receivable which cannot be so quickly converted into cash to meet corporate needs.

All these factors have been given careful consideration in determining the ratings for these 75 leading stocks. But most important weight has been given to the earnings and dividend prospects and the extent to which these have been discounted in the current price of the shares.

The foregoing are the basic elements of investment analysis. But in a changing market climate, thorough company analysis must then be synchronized with market and business conditions as they exist at the moment, and those likely to prevail in the future.

Today's Market Environment

And what are the conditions that apply today? This year stockholders have undergone some painful moments. The promise of a year or two ago has given way to disillusionment, and more concretely to the erosion of paper profits or to outright losses. It has also given way to bewilderment, because current market action is inconsistent with the "growth" framework in which most investors made their commitments. All too few realize that a new framework is in the making, and that growth, while always a legitimate market objective, is no longer the overriding consideration in purchasing common stocks.

In a transitional market such as we are now in, growth potential will still command value, but it will have to be backed by solid near term earnings and relatively good dividends.

A glance at a few specific situations illustrates the point in the current market. St. Regis Paper, since its 1956 high, has declined over 50%, while Kimberly-Clark, another important paper producer has dropped a more modest 19%. St. Regis' recent dividend cut (which came after most of the decline had occurred) is one good reason, but more importantly, it is tell-tale evidence of the kind of basic differences between two companies in the same industry that investors must appraise.

The paper industry has expanded its capacity enormously, anticipating new surges of demand in the decade of the sixties. Expansion is costly, and it is doubtful whether many of the industry's members will be able to earn enough in the next year or two to pay for this expansion and still have much left over for stockholder's dividends. St. Regis' capital expenditures have been particularly high, and venturesome in nature. As a result, investors are understandably uncertain about the company's ability to sho wa stable earnings and dividend record during the trying period ahead.

On the other hand, Kimberly-Clark, deriving most of its revenues from low-priced consumer items (Kleenex, etc.) has demonstrated, and is expected to continue to show good earnings stability, despite high capital expenditures. With its future growth backed by good near term earnings, steadier market action is warranted.

The contrast is even more interesting among the successful national defense producers. Both Douglas Aircraft and General Dynamics have impeccable records. Yet Douglas is off almost 40% from its high and yields 6.5%, while Dynamics is off only half that much and yields 4%. The answer to the difference in evaluation cannot be found in the statistical tables accompanying the 75 leading stocks we have listed, although General Dynamics' high working capital position is a plus factor. The real difference is in the nature of the two organizations. Douglas is purely an aircraft producer, with a stake in missiles. True, almost 50% of its backlog consists of commercial craft, but airlines are faced with financial problems that may cause them to curtail their current pace of equipment ordering unless new financing methods are devised. In addition, cuts in defense spending may shrink volume of new orders and, should cancellations occur, even affect backlog orders. When we couple these factors with Douglas' traditionally low percentage dividend payout, the 40% decline in the price of the shares seems understandable.

But for General Dynamics the picture is different. As a defense contractor it is vulnerable to cutbacks, but its interests are so diversified in aircraft, submarines, electronics and nucleonics, that drastic backlog reductions seem unlikely. Furthermore, most of the company's diversification today is centering on non-military items, many with excellent long range potential. Hence, the higher market valuation of the shares. Both near-term and long term prospects seem attractive.

The Question of Yields

In a market in which income considerations will no longer take a back seat to growth, investors must ponder the whole question of interest rates and "fair yields." For where growth diminishes in importance the yield obtainable, measured against alternate forms of investment become paramount. Fortunately we have some tools to work with. We can be reasonably certain, for example, that money will remain tight for two allied, but separate reasons.

The first is the determination of the Administration and the Federal Reserve to keep it that way until there is definitive evidence that inflation has waned as a serious economic threat. The other is the demand and supply situation for money. Corporation, generally suffering from low liquidity, must continue to borrow to meet current needs, even if capital spending tails off. Mortgage and consumer financing may not continue to rise as rapidly as it has in most of the post-war era, but it will remain a tremendous drain on the money supply. And the demand for funds by all levels of government will continue to break records. At the same time, with or without government restraints, the funds available to meet this tremendous demand will remain in short supply.

Under these conditions, once growth has been de-emphasized, government bonds at 4% and high grade corporates at even higher yields will compete more effectively for funds now tied up in stocks. To stay competitive, stock yields will have to increase accordingly.

Where Do the Steels Stand in This Light?

It is a safe bet then, that at least 6% to 7% yields will become usual in the market. On this basis where do many important stock groups stand? The steels, for one, appear fairly well situated. Bethlehem, Republic and National are all hovering around 6% now, and will become more attractive if the yield goes higher. U. S. Steel at 5% may seem vulnerable, but its unique industry position may explain the premium—and the 5.2% return offered by the Inland Steel shares is more a reflection of the company's outstanding record as a low cost producer—a factor that assures dividend regularity.

Only if we suppose a return to the 10% to 12% yields of the 1940s, are these yields out of line. For if steel is not a growth group, it is one that keeps pace with the normal expansion of the economy—and although it may slow down, there is no reason to assume this expansion has ended. The next two years or so may have some trying moments, but we can expect the enormous expansion of facilities completed recently to pay off in future higher earnings and dividends.

What About Traditional Growth Industries?

Most of the outstanding growth groups will continue to command a premium, but individual variation will be wide. Among the chemicals, where growth has been a by-word for a quarter of a century, the less diversified companies, with production centered in basic industrial chemicals will feel the worst pinch, but all segments of the industry have already given up part of their growth premiums. Interestingly enough, the major companies represented in our table have remained on a par with one another. Union Carbide and duPont, the industry's giants have equal yields, and Allied's is only fractionally higher. Dow's 2.2% cash return seems low, but the cash dividend is consistently augmented by stock payments. In addition, based on past performance some premium over (*Please turn to page* 116)

DOES ADVERTISING SPELL THE DIFFERENCE?

The Emerging Trend In Tobacco Leadership—

REYNOLDS vs LIGGETT & MYERS

By JONATHAN SIMPSON, JR.

The cigarette industry today is in the throes of what may well prove to be one of the fiercest competitive battles waged for consumer acceptance. It has developed into a battle of slogans and packaging; a scramble to snare the largest piece of the new filter-tip market; and a campaign to minimize the cancer link. The spark that has created all of these problems on which the industry seems to be focusing all of its attention at this time, can undoubtedly be traced back to the apparently higher incidence of cancer among those who are steady smokers. The public has in the past 3 years become acutely conscious of the health aspects and of the implications to be derived if one smokes steadily. This concern over health on the part of the consumer has been reflected in a decided change in the smoking habits on the part of the average smoker. It might be well at the outset to examine just what changes on the part of the consumer have taken place and how in turn this has been reflected in the companies' activities.

Prior to 1951 the smoking public had in reality a rather limited choice of cigarettes in terms of types as against brands. They were regular and/or king size. Even so, the king size type of cigarette accounted for only 12% of all the cigarettes sold in 1951. At the same time the public had a choice of only two filter type cigarettes—Viceroy and Parliament; consumption of which accounted for only 1% of the market that year. From 1951 to 1953 sales of king size cigarettes rose from 12% to 28%. This increase was at the expense of the regular size type of cigarette whose percentage of the market declined to 62% in 1954 from 87% in 1951. The filter tip cigarettes did not penetrate the market too deeply during this period although as a percentage of the market, their consumption rose from 1% to 10% in 1954.

Without much advance warning the roof seemed to cave in on top of the cigarette manufacturers during the latter part of 1953 when, in what

proved to be just the first of a series, a report was published by the American Cancer Society, linking lung cancer to the use of cigarettes. In addition, other reports linked heart trouble, and arterial sclerosis to cigarette smoking. The effect of these reports on the cigarette industry can best be demonstrated by the fact that in 1953 cigarette consumption was off by 2.6%—the first decline recorded in cigarette consumption since 1932 (excluding the war years). Again in 1954, consumption declined by 5.3% which was more than double the decline of 1953. Therefore, in two years, cigarette consumption declined by almost 8% which, when taken alone, does not represent a serious decline, but was an unusual change, in the light of the steady annual increases recorded by the industry prior to 1953. It was not until 1955 that the declining trend was reversed, although consumption in that year was still below the 1953 level, and it was not until 1956 that the earlier consumption level was exceeded. The following tabulation presents the consumption figures from 1939:

Comparative Earnings and Balance Sheet Statistics

	Liggett & Myers Tobacco Company 12-31-56	R. J. Reynolds Tobacco Company 12-31-56
	(Millions)	
Long Term Debt (Stated Value)	$101.5	$110.0
Preferred Stock (Stated Value)	$ 20.8	$ 75.0
Number of Common Shares Outstanding (000)	3,912	10.000[2]
Capitalization	$220.1	$185.0
Total Surplus	$145.7	$232.2
Net Sales, 1956	$584.9	$957.3
Net Income, 1956	$ 26.4	$ 61.9
Net Earnings Per Share, 1956	$ 6.39	$ 5.91[2]
Net Sales (1st 6 Months, 1957)	$288.5	$507.7
Net Earnings Per Share (1st 6 months, 1957)	$ 3.21	$ 3.17
Cash and Marketable Securities	$ 11.6	$ 23.7
Inventories, Net	$409.0[1]	$557.2
Receivables, Net	$ 23.9	$ 30.1
Current Assets	$444.6	$611.1
Current Liabilities	$115.7	$147.5
Net Working Capital	$328.9	$463.6
Current Ratio (C.A. to C.L.)	3.9	4.1
Net Property	$ 33.6	$ 45.0
Total Assets	$481.6	$659.4
Book Value Per Share	$ 62.24	$ 33.33[2]
Recent Price of Common Stock	64	59[3]
Price—Earnings Ratio (1956 Earnings)	10.1	10.0
Indicated 1957 Dividend	$ 5.00	$ 3.20
Dividend Yield	7.8%	5.4%
Price Range 1956-57	72⅝-61⅞	61-49[3]

[1]—Cost.
[2]—Combined Com. & Class "B" Com.
[3]—Class "B" Common.

CIGARETTE CONSUMPTION
(Billions)

Year	Tax Paid Withdrawals	Change from Previous Year	*Tax Free	Total	Change from Previous Year
1957 E	403	+ 2.0%	30	433	+ 1.6%
1956	395	+ 3.4	31	426	+ 3.4
1955	382	+ 3.5	30	412	+ 2.5
1954	369	− 4.7	33	402	− 5.3
1953	387	− 1.8	37	424	− 2.6
1946	322	+ 17.1	30	352	+ 6.0
1939	172	+ 5.5	9	182	+ 5.2

*Includes cigarettes produced for export, military consumption and for experimental purposes.

The 1953 and 1954 decline in smoking (to which the cigarette manufacturers were not accustomed) presented a serious problem which became compounded by a number of other disturbing factors. Not only had the public apparently eased up on smoking (with many not smoking at all), but the public in addition, had also changed its preference in cigarettes from the regular to the king size filter tip in many cases. That a real change has occurred is evidenced by the following tabulation:

CIGARETTE CONSUMPTION BY TYPES
(Billions)

	1952	1953	1954	1955	1956	% Change From 1952
Regular Size	318.7	271.7	225.3	202.1	182.4	− 42.8
King Size	71.9	103.9	106.3	103.2	96.8	+ 34.6
Filter Tip	5.2	12.4	37.4	74.7	119.3	+ 2,193.3
No. of Brands	26	28	33	34	38	+ 46

New Brands — New Packs Create New Problems

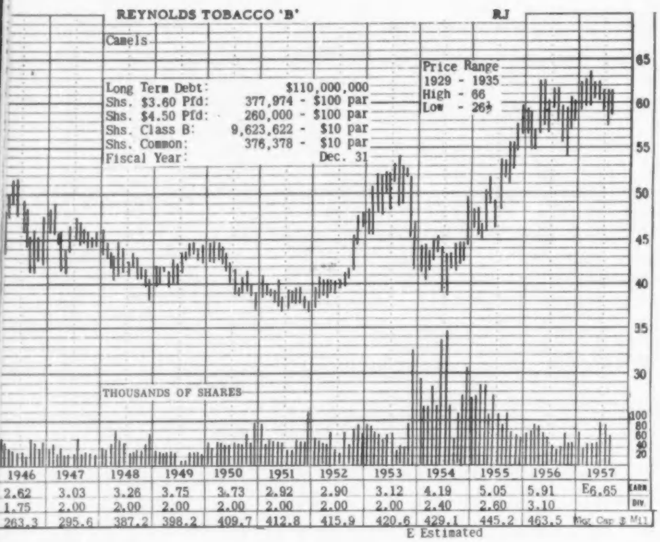
This rapid and decided change in the smokers' preference caught not only the cigarette manufacturers by surprise but found the cigarette machinery manufacturers lagging. The first machines used to manufacture the king size filter tip were in large part of foreign design. In general, however, these machines were not up to domestic standards in the important area of speed of manufacture.

Since this time, of course, virtually all companies have purchased and are using American made machinery. Other problems became rapidly apparent. The design and creation of filters was perhaps the most immediate one to be solved. Filters at first were rather simple, as cotton cellulose which was inexpensive and plentiful was found to be acceptable. Then, along came Kent with its "micronite filters" which carried with it rather awe-inspiring claims of not only its effectiveness but of the method of discovery and development. This sounded the clarion call for the companies to develop their own filters—effective filters and not just cellulose cotton wadding. Since that time a host of new cigarettes—king sized filter tips have hit the market.

Now, however, another problem became clearly evident: the problem of introducing these new products on a nation-wide basis. Two years ago the cost of such a national advertising campaign was estimated in the $15 million range. With the cost of television, newspaper, and magazine advertising spiralling, it would not be surprising if the current introduction costs of a new brand exceed $25 million.

R. J. Reynolds Particularly Successful

The industry has met and solved many of these difficulties. Some companies achieved real success



while others were less fortunate. The advertising program and sales promotion efforts are considered to be the most significant factor in a cigarette company's operation. The success of a company hinges on the method by which it promotes its products. Of all consumer products, perhaps cigarettes reflect most significantly the amount and type of promotional endeavors. R. J. Reynolds, in our opinion, has achieved possibly the highest level of success in this respect.

For years its leading product, Camels, continually ran a good second to Lucky Strike, the country's leading and most popular cigarette. The fact that Camels is now the largest selling cigarette and has been for a number of years is evidence of the impact of Reynolds' advertising.

Not content to rest on its laurels, the management was acutely alert to the changes in the habits of the smokers in the early 1950s, and in March of 1954 introduced Winston. In its first year, 1954 (actually only nine months), 7.5 billion Winston cigarettes were sold which represented a rather insignificant 2% of the total cigarette market in that year. In 1955, its first full year, consumption of Winston jumped to 22.2 billion which represented 5.8% of the total market, and in 1956 such consumption rose to 34 billion, equal to 8.5% of the total market. Winston now accounts for by far the largest percentage of the filter tip business. This record established by Winston represents one of the industry's most outstanding achievements. The sales volume of this cigarette in 1956 actually exceeded the volume of sales of the regular size Chesterfield. There are only 3 other brands sold today that exceed Winston in volume–Camels, Lucky Strike, and Pall Mall.

This established record of achievement directly reflects Reynolds' advertising and merchandising policy. Not only has the company excelled in its promotional activities, but it has also seen fit to spend a porportionately larger amount on advertising than its competitors. Such expenditures have been at an ascending rate since 1952. Furthermore, as is demonstrated by the following table, Reynolds has increased its expenditures at a faster rate since 1954 than all other companies in the industry (excluding Philip Morris).

ADVERTISING EXPENDITURES

(000,000 omitted)

	1952	1954	1956	% Increase 1952-1954	% Increase 1954-1956
R. J. Reynolds	$17.2	$17.8	$23.6	+ 3.5%	+ 36.0%
American Tobacco	15.1	19.5	21.9	+29.0	+ 12.3
Liggett & Myers	13.0	15.2	16.1	+17.0	+ 5.9
Lorillard	8.6	14.0	9.9	+59.5	– 29.4
Phillip Morris	10.7	7.7	17.1	–27.8	+122.0

The 1954-1956 period could well be considered one of the most important periods in the industry's history. These were the years, those crucial years during which the consumers habits were radically changing. The consumption of filter-tip cigarettes as a percentage of total consumption began to take on proportions of real significance. Reynolds' allocation for advertising and promotion, increased substantially, while Liggett and Myers showed only a minor increase and Lorillard's appropriations were actually down.

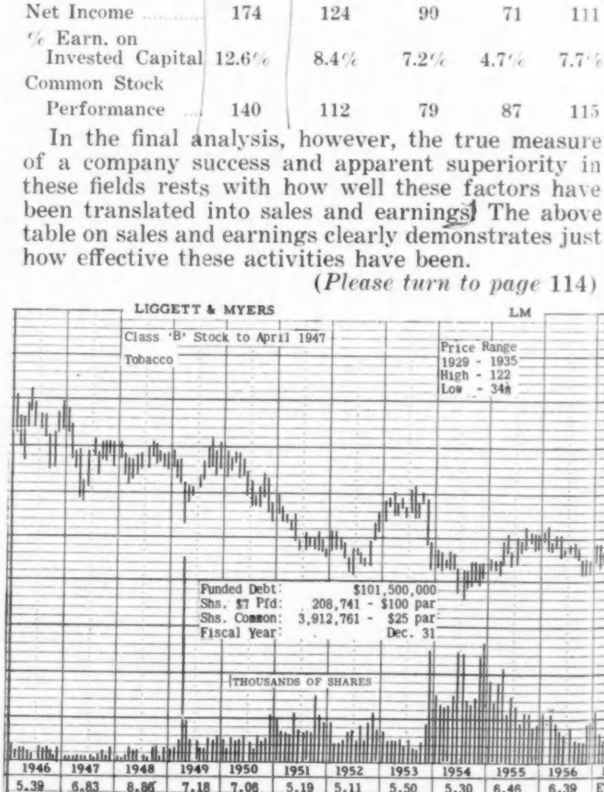
1956 SALES AND EARNINGS INDEX

(1947-1949 = 100)

	R. J. Reynolds	American	Lig. & Meyers	Lorillard	Philip Morris
Sales	134	128	104	144	140
Pre-Tax Net	228	164	133	89	161
Pre-Tax Net %	14.3%	10.4%	10.3%	4.2%	7.9%
Net Income	174	124	90	71	111
% Earn. on Invested Capital	12.6%	8.4%	7.2%	4.7%	7.7%
Common Stock Performance	140	112	79	87	115

In the final analysis, however, the true measure of a company success and apparent superiority in these fields rests with how well these factors have been translated into sales and earnings. The above table on sales and earnings clearly demonstrates just how effective these activities have been.

(*Please turn to page* 114)



THE MAGAZINE OF WALL STREET RESEARCH LIBRARY

THE EDITORS'

INVESTMENT CLINIC

We have designed this article to be particularly helpful to the numerous subscribers who have been expressing anxiety regarding the dividend prospects for securities they hold, especially since the recent market decline — which brought some stocks down to the lowest point in two years—has caused many to feel that the market action forecasts a more drastic cut in earnings and dividends.

In the previous issue we covered the companies that have already become dividend casualties this year. In doing so we pointed out those that may have further trouble in the future and also called attention to those that appear to have discounted their dividend cuts and omissions.

Now, in this article, we will attempt to pin-point companies whose dividend coverage has become—or is likely to become narrow enough to create doubts about the safety of future payments.

In this connection, it is well to bear in mind that the dividend policy of any company is strictly a managerial prerogative. As such, the decision to pay or not to pay—to raise or to cut, etc., may be based as much on intangibles as on the firm's financial condition or business prospects at the moment. In identical circumstances one management may be prompted to retrench, another may see current adversity as merely a temporary pause in assured secular growth and have no hesitation about continuing payments, even if not earned.

Other firms take great pride in the continuity of their disbursements over the years, and may be tempted to overlook sound financial practices in order to keep the record intact. And, at the opposite extreme some managements are so conservative that dividends are in jeopardy the moment business conditions take a turn for the worse. Nevertheless, despite the importance of the intangibles, there are signposts we can follow.

There are many firms, for example, with dividend policies so well established that predicting a probable course of action has few hazards. Often the very nature of the industry dictates the policy. A case in point would be the non-ferrous metals group, as well as others with highly cyclical earnings patterns, who usually key disbursements closely to current earnings. If profits soar, so will dividends, either in the form of regular payments or extras. Conversely, if earnings drop off sharply, it is a pretty safe bet that dividends, and especially year-end extras will be cut back accordingly.

Extras for Metal Companies in Doubt

Take the trouble-beset copper industry. The price of copper has dropped so precipitously this year that all producers have been hit hard, indiscriminately. The larger units, such as Kennecott and Anaconda, of course, have ample diversification in smelting and fabrication, and their aluminum interests lend some earnings stability, but their per share profits will be

Stocks With Narrowing Dividend Coverage

	1956 Earnings Per Share	1956 Div. Per Share	1st 6 Months Comparative Earnings Per Share 1956	1st 6 Months Comparative Earnings Per Share 1957	1st 6 Months Net Profit Margin 1956	1st 6 Months Net Profit Margin 1957	Indicated 1957 Div. Per Share*	Price Range 1956-1957	Recent Price	Rating
Alco Products	$2.11	$1.00	$1.02	$ .23	2.7%	.6%	$1.00	23⅞-14¼	14½	B3
Allis-Chalmers	2.42	2.00	1.44	1.36	4.0	3.9	2.00	37⅝-29¾	30	B2
American Airlines	2.40	1.00	1.22	.67	6.9	3.7	1.00	26¼-16	16	B3
American Broad.-Para.	1.78	1.30	.97[3]	.63[3]	4.7[3]	2.5[3]	1.00	32½-16⅝	17	C3
American Metal Co. Ltd.	3.32	1.75[1]	1.21	.73	n.a.	1.8	1.20	35⅞-20	20	B3
American Radiator & S. S.	1.65	1.40	.96	.45	5.8	3.0	1.00	24⅛-12⅞	13	B3
American Viscose	2.93	2.00	1.73	1.31	7.2	5.2	2.00	51¾-30⅞	35	A3
American Zinc	2.74	1.00	1.30	.76	4.0	2.7	1.00	23⅛-12⅞	13	C3
Armstrong Cork	2.56	1.50	1.32	1.17	5.5	4.9	1.20	37¾-24½	24½	A3
Anaconda	12.85	5.00	7.07	2.66	n.a.	n.a.	4.00	87¾-48¾	51	B3
Bell Aircraft	2.21	1.25	1.23	.79	3.8	2.0	1.25	27 -16	16	C3
Bigelow-Sanford Carpet	2.64	1.00	1.22	.65	3.0	1.8	1.00	16⅛-11⅛	11¼	C3
Braniff Airways	.64	.60	.55	.28	3.8	2.7	.45	14⅞- 7⅞	8	C3
Bucyrus-Erie Co.	3.64	2.40	2.65	1.77	9.1	6.5	2.00	56¾-32¾	33	B3
Celanese Corp. of America	2.08	.62½	.65	.56	6.5	5.9	1.00	21⅛-13⅜	13½	B3
Commercial Solvents	1.07	1.00	.61	.45	5.7	4.2	1.00	21⅝-13½	14	C3
Copper Range	4.88	1.00[1]	3.20	1.11	20.1	9.0	1.00	70 -24⅛	24¼	B3
Dan River Mills	1.18	1.00	.69	.56	4.0	3.1	.80	17⅜-10	10	C3
Grumman Aircraft	3.50	2.00	1.86	.97	4.5	2.3	2.00	35⅞-18⅝	19	C3
Hudson Bay Mining & Smelt.	7.70	6.00	4.26	1.94	36.5	23.5	5.00	99 -50¾	54	B3
Int. Harvester	3.16[4]	2.00	1.56[10]	1.20[10]	3.7[10]	3.6[10]	2.00	41⅝-32½	32½	B3
International Silver	5.53	3.75	1.35	.36	2.4	1.2	3.00	70⅜-36	36¼	B3
Kennecott Copper	13.23	9.25	8.24	4.56	27.6	18.9	6.00	147¾-88⅝	92	A3
Libby, McNeill & Libby	2.05	1.00	2.05[2]	.75[2]	2.7[2]	1.2[2]	.80	18¼-10	10	C3
Loew's Inc.	.91	1.00	.51[5]	.52[5]	2.1[5]	2.2[5]	1.00	25⅛-14¾	15	C2
Marchant Calculators	3.27	1.30[1]	1.72	.66	7.4	3.2	1.30[1]	38 -20	25	C3
Miami Copper	11.88	6.25	7.01	2.11	25.0	11.0	4.00	61⅜-26½	28	B3
Oliver Corp.	.76	.70	.07[6]	[d].26[6]	.5[6]	[d].4[6]	.60	17⅜-10½	10¾	C3
Phelps Dodge	8.72[9]	5.00	5.04	2.72	21.5	17.1	4.30	76⅞-42⅜	46	A3
Rayonier	2.65	1.40	1.52	.71	11.0	5.6	1.40	44⅞-19	19½	B3
Texas Gulf Sulphur	2.81	2.00	1.47	1.10	33.0	29.6	2.00	38¾-20½	22	A3

d—Deficit.
n.a.—Not available.
1—Plus stock.
2—Years ended June 30.
3—Before capital gains.
4—Year ended Oct. 31.
5—40 Weeks ended June 6.
6—9 months ended June 6.
7—36 weeks ended May 5, 1956.
8—39 weeks ended May 25, 1957.
9—Before depletion.
10—6 mos. ended April 30.
*—Based on dividend declarations through September 15.

RATINGS: (A)—Best Grade. (B)—Good Grade. (C)Speculative. (D)—Unat.ractive.
1—Improved earnings trend. 2—Sustained earnings trend. 3—Lower earnings trend.

well below a year ago. **Kennecott** may earn about $8.00 this year after $13.23 in 1956, lending some assurance to the regular $1.50 quarterly dividend, but there seems little chance that the $2.50 year-end extra paid last year will be repeated.

Anaconda, too, will probably cover its regular $1.00 quarterly payment, but no year-end extra should be expected.

Similarly, **Phelps Dodge,** second largest domestic copper producer, will undoubtedly disappoint holders who have illusions about a repeat of last year's $2.00 per share extra. With first half earnings down some 40%, continuance of the 75¢ regular is the best to be expected.

Among the smaller metals companies, many with some diversification appear capable of continuing regular payments, but extras will undoubtedly go by the board. **Copper Range,** operating largely under RFC loans that enabled it to bring its prolific White Pines properties into profitable production, has wisely kept dividend payments small during the initial period of its new venture—earmarking much of its profit for repaying RFC indebtedness. Earnings will be off sharply from last year's $4.88 per

share, but the 25¢ quarterly dividend should be maintained. Not so certain, though, is the 5% stock dividend paid at the end of 1956.

American Smelting, American Metal Company, Ltd., and **Miami Copper** will all undoubtedly forego extras this year, while **American Zinc,** a major smelter will have trouble meeting its regular 25¢ quarterly payment.

Some Cuts Likely Among the Aircrafts

Turning to the aircraft group, which has been the subject of many subscribers' inquiries – most of the major companies continue to show good earnings, and dividends are not in danger–but some of the smaller companies are in a different boat. For both Bell Aircraft and Grumman, for instance, management will have to give serious thought to dividend payout this year. A year or two ago, a drop in earnings might easily have been viewed as a temporary setback resulting from contract expirations or cancellations. Unless the earnings decline had been particularly sharp, management could justify continuity of dividends on the assumption that new contracts would be forthcoming. All that is changed now, however. Defense cutbacks and a change in defense strategy has darkened the future for many producers, and especially the smaller units in the field.

Bell has a fair amount of diversification in electronics, and is reasonably secure in the military helicopter field, but the drop in first half earnings to 79¢ per share from $1.23 last year puts the $1.25 annual payout in doubt. Potential mergers give the stock some speculative appeal, but it is otherwise unsuited to the average investor.

Grumman, a prime naval contractor since before World War II has generally reported good results. But this year declining earnings are being accompanied by a rapidly dropping backlog. In addition, the naval procurement program has been cut substantially, and competition from other suppliers has increased. As a result, the dwindling coverage for the regular 50¢ quarterly dividend takes on a disturbing hue. A cut must be considered possible either by year end, or in early 1958.

Farm Equipment Dividends May Hold

Farm equipment manufacturers, on the other hand may be inclined to take lower current earnings more lightly. Farm income is rising and better market conditions seems to be developing, indicating some earnings betterment ahead. Thus despite slim coverage, **International Harvester** will probably pay its full $2.00 this year–and **Allis Chalmers,** which has been doing well in its electrical equipment division, will undoubtedly continue its regular 50¢ quarterly. **Oliver Corporation** will barely earn its 15¢ quarterly dividend, but the company is so optimistic about its diversification into the roadbuilding and construction equipment fields, that the payments will probably be left intact.

It might be well however, for Oliver to take a look at **Bucyrus-Erie,** one of the nations leading construction equipment makers. The company has suffered a 20% earnings decline so far this year, and the immediate future seems no brighter. With 310,000 additional shares now outstanding, a repeat of last year's 90¢ year-end payment is doubtful, unless roadbuilding and other public works construction picks up sharply between now and year end.

Some Variations in Textiles

In the long depressed textile industry, many payments have already been reduced as indicated by our comment on Burlington, M. Lowenstein and others in the previous issue–and more will follow. But for special reasons, some companies will probably not vary their payments this year. **American Viscose,** for instance, will see its earnings drop again, but revenues from its Chemstrand joint-venture are improving, and cellophane production has picked up substantially in recent months. With moderate earnings improvement in sight, the 50¢ quarterly dividend will probably be continued, although coverage will be very narrow.

Bigelow-Sanford, however, will probably try to conserve cash for needed diversification and lower its 25¢ quarterly, while **Dan River Mills,** despite its improved competitive position will have difficulty matching last year's total of $1.00 per share.

Few Industry Leaders in Trouble

All in all, it is noteworthy that with the exception of a few particularly depressed industries, none of the major companies appear to be in trouble. **American Broadcasting-Paramount,** one of the "big three" telecasters is a possible exception, but most of its troubles stem from motion picture theatre operations, and not from the television end of the business. As a matter of fact, so bullish is the management on the company's future in television, that it would not be surprising if full year payments equal last year's $1.30. Certainly the $1.00 regular will be paid, and the 30¢ extra may also be forthcoming even though earnings from operations may offer scant coverage at $1.50 per share. However, additional earnings may again be realized from the sale of motion picture theatres – a factor which should bolster the company's working capital position.

American Airlines is another of the very few major companies whose dividends are in doubt. But in this case the same difficulties are affecting the entire industry. Costs have climbed rapidly, but the government refuses to grant rate increases, causing a hard squeeze on profits. AA's earnings fell sharply in the first half of 1957, equalling only 67¢ per share against $1.22 in the same period a year ago. With new equipment purchases slated to loom large in the near future, the 25¢ quarterly payment may have to be trimmed, or eliminated entirely.

But in most industries only isolated companies are in real dividend difficulties. Take Commercial Solvents in the chemical group, and Marchant Calculator, among the office equipment makers. Each industry is doing relatively well, yet these companies must be considered casualty candidates. **Commercial Solvents** is performing well below the general level in the chemical industry, and is frantically trying to reduce its dependence on alcohols and penicillin. Fortunately financial condition is good, enabling the company to pursue diversification vigorously, but dividend coverage will be so narrow for the second straight year that a cut may have to be made.

Marchant Calculator is also turning in a performance out of line with the rest of its industry. Office equipment sales are booming generally, but this company has had sales reversals. In addition earnings have been hit hard by non-recurring items. But basically greatest *(Please turn to page 112)*

FOR PROFIT AND INCOME

Leaders

As was frequently noted during its course, the leadership of the late bull market was generally good, with no great amount of speculation in lower-grade stocks. But the net result was marked over-valuation of most "good" stocks and nearly all "growth" stocks at last July's market high, as well as at its 1956 highs. So it is not surprising that, while all sorts of stocks have fallen with very few exceptions, we have since had a large measure of "good leadership" on the decline. A few examples of declines much above average to date include Allied Chemical, Dow Chemical, Kennecott Copper, Minneapolis-Honeywell, Eastman Kodak, Standard Oil of Indiana, Continental Oil, National Lead and U.S. Steel. Many others could be cited. During most of the great advance, the Dow industrial average did better than the industrial list as a whole. Since some of the good stocks in it are still over-valued, it is questionable that it would perform better than the market in event of further decline; it could do worse than the list in general.

No Glamor

The shift in investment thinking is strikingly emphasized by the types of stocks, brokerage firms are singling out for laudatory comments and analyses. Not so long ago they ran heavily to growth stocks and "special-situation glamor stocks." Now they are in large measure concentrated on income stocks or other staid issues which did nothing exciting in the bull market. Some recent examples: American Agricultural Chemical, Anchor Hocking Glass, Family Finance, Foremost Dairies, Deere & Co., Marine Midland, Procter & Gamble, Reynolds Tobacco and United Biscuit. Speaking of "glamor", American Potash and U. S. Borax, over-exploited on speculative possibilities in boron-based fuels for guided missiles, etc., were recently down 35% and 43%, respectively, from their highs. As an example of how a growth stock can plummet when it has been over-bulled and when profit growth has slowed, Outboard Marine at its low to date had skidded about 40%. (Readers who followed our earlier buying and selling advices on this stock made big money).

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1957	1956
Goodyear Tire & Rubber	6 mos. June 30	$3.47	$2.96
Household Finance Corp.	6 mos. June 30	1.51	1.31
Northern Natural Gas	12 mos. June 30	3.73	3.38
Adams-Millis Corp.	6 mos. June 30	1.15	.10
Hershey Chocolate Corp.	6 mos. June 30	2.90	2.06
American Bosch Arma	6 mos. June 30	1.56	1.16
Bendix Aviation Corp.	Quar. June 30	1.40	1.08
Texas Instruments, Inc.	Quar. June 30	.28	.15
Columbia Broadcasting System	26 weeks June 29	1.33	.71
General Precision Equipment	Quar. June 30	1.25	.64

Stock Groups

In recent trading sessions up to this writing nearly all stock groups have been taking more or less of a beating. However, the principal groups holding up considerably better than the market were: confectionery stocks, containers, tobacco stocks, electric utilities, finance companies and small-loan stocks, baking, corn refiners, dairy products, food brands, office equipments, retailing stocks, insurance stocks, soft drinks, shoes, soaps and textiles. Those hit harder than the general market included aircraft, air lines, building materials, coal, drugs, electrical equipment, meat packing, machinery, oils, rails, rail equipments, steel and sulphur.

Support

Although down appreciably from their highs in most cases and considerably in some, the following stocks held up well on recent extension of the market's decline up to this time: American Bakeries, American Can, American Stores, American Tobacco, Anchor Hocking Glass, Associated Dry Goods, Beneficial Finance, Borden, Case, C. I. T., Commercial Credit, Corn Products, Family Finance, General Cigar, General Foods, Household Finance, Kroger Co., Lorillard (currently at a new 1957 high), McGraw-Hill, Merck, Mead Johnson, May Department Stores, National Biscuit (recently at a new 1957 high), National Dairy Products, Otis Elevator, Parke Davis, Penney, Phelps Dodge, Procter & Gamble, Reynolds Tobacco (recently at a new bull-market high), Quaker Oats, Standard Brands, United Biscuit and U. S. Plywood.

Soft

Stocks pointing downward up to this writing are too numerous to list. Here is a cross-section sample of a few of the more prominent ones: Allied Chemical, Allis-Chalmers, Alcoa, American Cyanamid, Bendix Aviation, Bethlehem Steel, Boeing, Borg-Warner, Carrier, Caterpillar Tractor, Coca-Cola, Dow Chemical, Eastern Air Lines, Ford Motor, Gillette, Industrial Rayon, International Paper, Johns-Manville, Montgomery Ward, National Distillers, National Steel, National Supply, Phillips Petroleum, Pittsburgh Plate Glass, Pullman, Pure Oil, Thompson Products and U. S. Rubber.

Chemicals

The chemical stock group is heavily represented in the portfolios of institutional and individual investors. Unfortunately, these investments figure to be generally disappointing for some time to come, and possibly a long time. The group's bull market began to round off as far back as 1955. From its 1955 high to its 1956 top, the additional gain was little over half that of the industrial average. The group now stands more than 20% under its 1956 high, in a worse-than-average showing. The growth of sales, even though they are at a record level, has slowed. Due to expansion expenses, other higher costs and keener competition in many lines, profit growth has been sharply checked. On average, earnings this year will do well to approximate 1956's. They could recede considerably in event of any general business recession ahead. With very few exceptions, they do not rate as real growth stocks under present conditions. There are misgivings in the industry as to how long the hiatus and the tough going may last. As far ahead as we can see, prospects for the stocks certainly are no better than average, if as good. They could go materially lower. Investors in them might well consider paring down holdings on rallies, and taking a particularly critical look at holdings.

High-Yield Utilities

Electric utility stocks which are subject to about average, or to relatively slow, growth of earnings and dividends sell primarily on an income basis, and therefore are sensitive to money-market trends. Reflecting the rise in bond yields to the highest levels in more than a generation, these stocks have fallen considerably from their best earlier prices; and current yields in many instances are around or close to 6%. If the stock market is right in allowing for some 1958 business recession, that implies a later easing in Federal Reserve monetary policy. Hence, bond yields could be materially lower a year from now. On that premise, risk in high-yield utilities now seems low, income return attractive; and there is basis for moderate appreciation, perhaps on the order of 10%-15% or so, in line with bond-market tendencies, over a reasonably extended period of time. Brief comments on several selected issues follow.

Suitable Buys

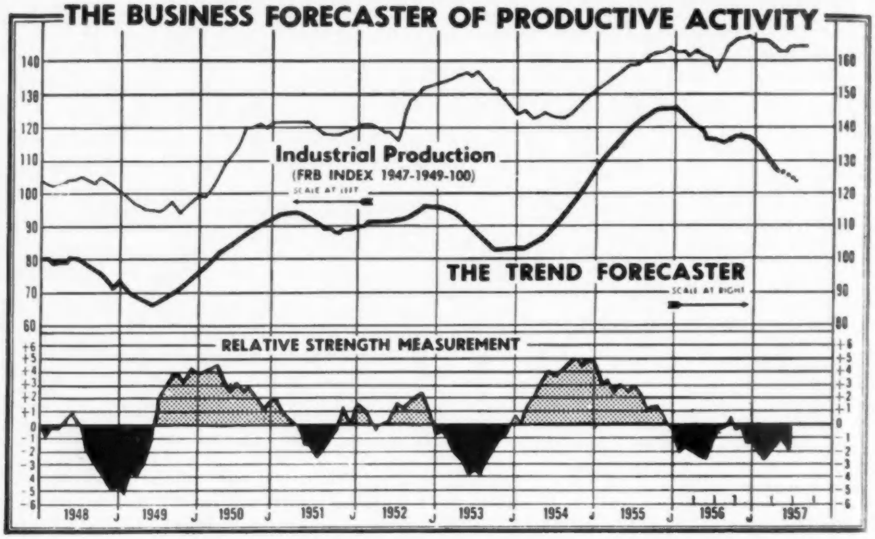
Profit of Columbus & Southern Ohio Electric should rise around 10% or so this year to the vicinity of $2.45 a share. The $1.60 dividend is secure and past payout policy suggests a boost to $1.70 or $1.80 some time in 1958. Now around 28, the stock yields 5.7% on the present rate. It sold as high as 36⅜ in 1956. . . . Public Service of Indiana probably will net around $2.70 a share this year, against $2.46 last. The $2 dividend has been static since 1953. There appears to be some chance for a moderate boost next year. The stock yields 5.9% at 34. . . . Union Electric may report around $2 a share this year against $1.70 in 1956. With payout policy liberal, there have been a couple of moderate boosts in dividends in recent years. The present rate is $1.54. It is indicated by management that about 20% of 1957 second-half dividends will not be subject to income tax, and that about 40% will be tax-free for the four years 1959-1962.

(*Please turn to page* 118)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

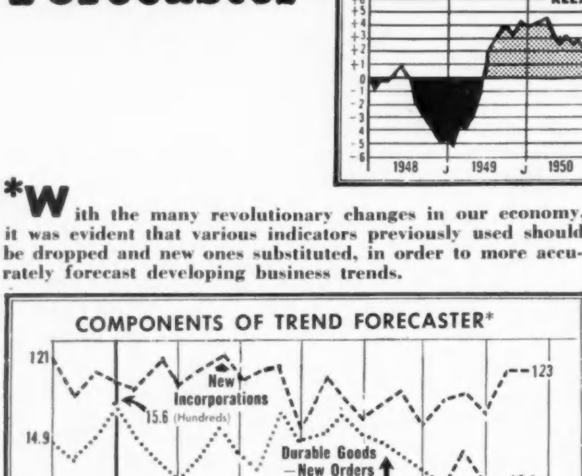
		1957	1956
Grumman Aircraft Engineer.	6 mos. June 30	$ .97	$1.86
Miami Copper Co.	6 mos. June 30	2.11	7.01
Anaconda Co.	6 mos. June 30	2.66	7.07
Butte Copper & Zinc	Quar. June 30	.01	.45
Cornell-Dubilier Elec.	9 mos. June 30	.95	1.32
Tidewater Oil	Quar. June 30	.70	.93
International Paper	Quar. June 30	1.55	1.96
International Nickel of Canada	Quar. June 30	1.51	1.69
Braniff Airways	6 mos. June 30	.28	.34
Reed Roller Bit Co.	6 mos. June 30	1.04	1.63

the Business



Business Trend Forecaster*

*With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(*)—Seasonally adjusted except stock and commodity prices.
(a)—3 month moving average.

This we have done in our new *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

When the *Forecaster* changes its direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

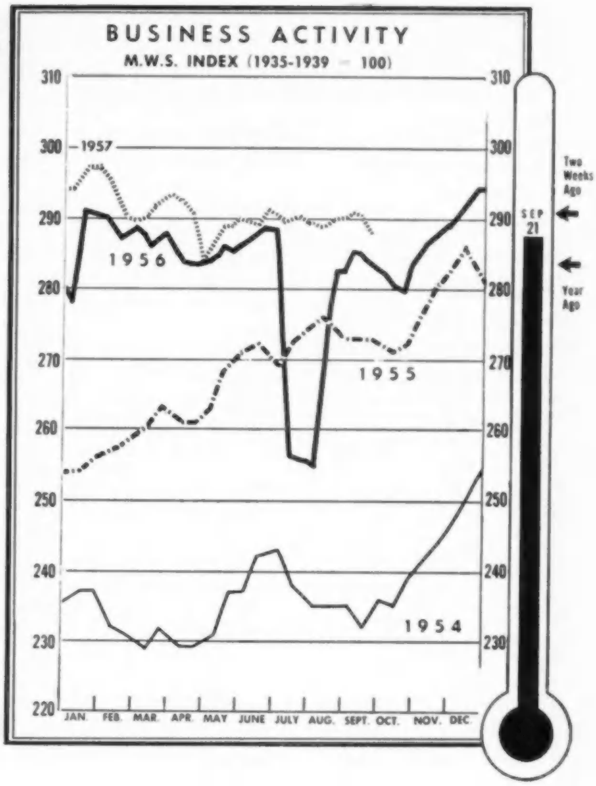
We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

As business moves into the fourth quarter, the majority of the component indicators charted at the left remain in negative or equivocal condition. Stock prices and prices of raw industrial commodities—two indicators with a good forecasting record—are clearly in a downtrend. Two other industrial indicators—hours worked, and new orders in durables industries—also appear to be in a prolonged downtrend. Business failures and new incorporations showed short-term improvement in the third quarter. The remaining two indicators—residential and non-residential building—have experienced offsetting trends in most of 1957, with residential recovering and non-residential working irregularly downhill.

Preliminary figures for the third quarter indicate that the **Relative Strength Measurement** is still clearly in a negative range, although not at the minus-three level indicative of coming recession. It may be noteworthy, however, that relatively minor movements of the components in the fourth quarter —such as renewed deterioration in new incorporations and business failures—would soon yield a **Relative Strength Measure** in the significant negative range. The **Trend Forecaster** itself has continued to decline at a moderate rate throughout the third quarter.

Analyst



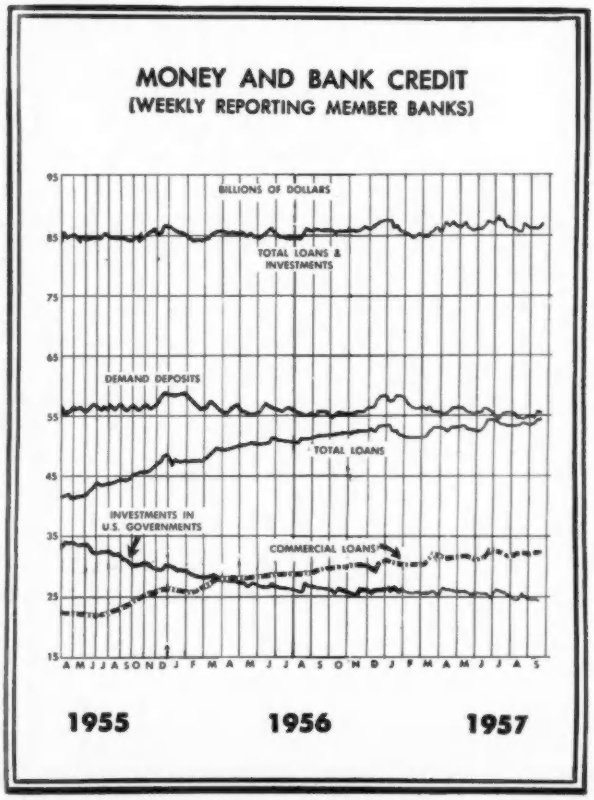
CONCLUSIONS IN BRIEF

INDUSTRY — Production trend adrift — falling in machinery and appliances, some raw industrials. Autos in seasonal doldrums; soft goods output holding up. Forecast: slow downdrift through fourth quarter, despite automotive upturn.

TRADE — continues at high level, with soft goods outstanding. Auto sales volume in August and September somewhat improved. Outlook: high level through December, with good Christmas trade in soft goods, fair in homefurnishings and appliances.

MONEY AND CREDIT — not a downturn, but at least stability in money rates for the rest of the year is now the general forecast. Money remains tight, but pressure is gradually coming out of the market. Beginning of ease in interest rates now appears much closer.

COMMODITIES — in general, raw materials prices continue to weaken, and are now undercutting finished goods prices. General wholesale price level has no — repeat, no — upward momentum. For the short term, at least, inflation is over.



As is usual when the stock market itself takes a major turn for the worse, business sentiment in the past several weeks has been seriously sobered. Largely gone is the confident (as of last June) belief in a substantial upturn for general business in the fourth quarter of 1957, and attitudes toward 1958 have been clouded. As has been pointed out continuously here for several months, this deflation of optimism was inevitable; the general trend of business conditions, as reflected in the statistics rather than in the wishful thinking of sales executives, has not been healthy or promising.

It is, of course, now too late for very much of a sensational character to develop in the business trend between now and year-end. And it is altogether possible — in fact probable — that Christmas trade this year will be quite good. (It should be remembered, however, that sales figures are swollen by higher prices; physical volume of trade in December may be no higher than a year ago.) But businessmen have already turned their thinking toward 1958, and they are about to bring sharpened pencils to bear on the budgeting of operations in that year. By all indications, they are going to budget cautiously. And particularly, they are going to do their capital budget with caution approaching the bearish level. It is no longer a forecast (as it was in June) to state that **capital expenditures of American business have passed their peak and are now slowly receding.** It is still a forecast, but no longer a very risky one, to say that the rate of outlays for new plant and equipment will be declining at a significant rate in the first half of 1958.

(Please turn to following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Aug.	144	144	143
Durable Goods Mfr.	1947-'9-100	Aug.	162	162	158
Nondurable Goods Mfr.	1947-'9-100	Aug.	131	130	130
Mining	1947-'9-100	Aug.	128	127	130
RETAIL SALES*	$ Billions	Aug.	17.2	17.0	16.1
Durable Goods	$ Billions	Aug.	5.9	5.9	5.5
Nondurable Goods	$ Billions	Aug.	11.4	11.2	10.6
Dep't Store Sales	1947-'9-100	Aug.	133	132	128
MANUFACTURERS'					
New Orders—Total*	$ Billions	July	27.3	27.1	27.7
Durable Goods	$ Billions	July	13.2	13.2	14.1
Nondurable Goods	$ Billions	July	14.0	13.8	13.6
Shipments*	$ Billions	July	29.0	28.1	26.8
Durable Goods	$ Billions	July	14.7	14.2	13.0
Nondurable Goods	$ Billions	July	14.3	13.9	13.8
BUSINESS INVENTORIES, END MO.*	$ Billions	July	90.9	90.6	86.2
Manufacturers'	$ Billions	July	54.1	53.9	50.0
Wholesalers'	$ Billions	July	12.7	12.7	12.3
Retailers'	$ Billions	July	24.1	24.1	23.8
Dept. Store Stocks	1947-'9-100	July	143	143	138
CONSTRUCTION TOTAL*	$ Billions	Aug.	14.6	4.3	4.5
Private	$ Billions	Aug.	3.1	3.0	3.1
Residential	$ Billions	Aug.	1.6	1.6	1.7
All Other	$ Billions	Aug.	1.5	1.4	1.4
Housing Starts*—a	Thousands	Aug.	1010	980	1136
Contract Awards, Residential—b	$ Millions	Aug.	1,284	1,287	1,729
All Other—b	$ Millions	Aug.	1,534	1,614	1,224
EMPLOYMENT					
Total Civilian	Millions	Aug.	69.0	70.2	68.9
Non-Farm	Millions	Aug.	52.8	52.6	52.3
Government	Millions	Aug.	7.1	7.1	7.0
Trade	Millions	Aug.	11.5	11.5	11.2
Factory	Millions	Aug.	13.0	12.8	13.3
Hours Worked	Hours	Aug.	39.9	39.7	40.3
Hourly Earnings	Dollars	Aug.	2.07	2.07	1.98
Weekly Earnings	Dollars	Aug.	82.59	82.18	79.79
PERSONAL INCOME*	$ Billions	Aug.	347	346	329
Wages & Salaries	$ Billions	Aug.	242	241	229
Proprietors' incomes	$ Billions	Aug.	52	52	50
Interest & Dividends	$ Billions	Aug.	32	31	30
Transfer Payments	$ Billions	Aug.	21	21	19
Farm Income	$ Billions	Aug.	16	16	15
CONSUMER PRICES	1947-'9-100	July	120.8	120.2	117.0
Food	1947-'9-100	July	117.4	116.2	114.8
Clothing	1947-'9-100	July	106.5	106.6	105.3
Housing	1947-'9-100	July	125.5	125.5	121.8
MONEY & CREDIT					
All Demand Deposits*	$ Billions	July	108.0	107.2	106.6
Bank Debits*—g	$ Billions	July	86.0	77.7	78.3
Business Loans Outstanding—c	$ Billions	July	31.7	32.5	28.6
Instalment Credit Extended*	$ Billions	July	3.5	3.4	3.3
Instalment Credit Repaid*	$ Billions	July	3.4	3.3	3.2
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Aug.	5.1	3.1	5.0
Budget Expenditures	$ Billions	Aug.	5.9	6.3	5.9
Defense Expenditures	$ Billions	Aug.	3.9	3.6	3.5
Surplus (Def) cum from 7/1	$ Billions	Aug.	(4.1)	(3.3)	(3.0)

PRESENT POSITION AND OUTLOOK

This is not to prejudge 1958 as a recession year. But it is worth noting that American business has never enjoyed a boom when capital outlays were declining. The year ahead, while it is still some distance away, is taking on the appearances of a more competitive, more difficult year than 1957; and the possibility of a serious encounter with the business cycle is now widely recognized.

* * *

NATIONAL OUTPUT — in the third quarter, it evidently ran at an annual rate close to $440 billion, up $4-5 billion from the second quarter. Most of the increase reflects higher prices — notably higher prices for consumer goods, which account for about two-thirds of all national output. In dollar terms, the biggest single increase was in personal consumption expenditures for soft goods, partly reflecting rising food prices. Personal spending for hard goods was up a little, thanks to an August-September improvement in new-car sales. And service outlays of individuals have continued the broad increase (mainly owing to rising rents and service prices) that has been characteristic of the postwar years.

Government spending also increased in the third quarter, partly because of an erratic, sharp rise in the rate of government spending for defense. Spending of state and local governments also continued up, although some state-local construction payments were delayed owing to shortages of cement early in the quarter.

Business spending was about unchanged from the second quarter. Nonresidential construction expenditures (which include plant facilities, public utility construction, stores, warehouses and office buildings) evidently rose a little, but spending for machinery and equipment was off a little. Inventory buying in the third quarter was not greatly different from the second-quarter rate. **On the whole, the third quarter marked a further extension of the lull that began almost a year ago**; the gain in national product was mainly a price phenomenon, as neither production activity nor employment improved.

* * *

PRODUCTION ROUNDUP — At the start of the fourth quarter, what strength there is in production trends is centered notably in soft goods lines. Transportation equipment output is in a downtrend, owing in part to declines in the production of defense aircraft. Primary metals production is slipping, as producers of nonferrous

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1957 II Quarter	1957 I Quarter	1956 IV Quarter	1956 II Quarter
GROSS NATIONAL PRODUCT	434.3	429.1	426.0	410.8
Personal Consumption	278.9	276.7	272.3	265.0
Private Domestic Invest.	65.0	62.7	68.5	65.3
Net Foreign Investment	3.5	4.1	2.4	1.2
Government Purchases	86.9	85.6	82.8	79.3
Federal	51.1	50.3	49.0	46.4
State & Local	35.8	35.3	33.9	32.9
PERSONAL INCOME	342.4	337.7	334.5	325.3
Tax & Nontax Payments	42.9	42.2	40.5	39.5
Disposable Income	299.5	295.5	294.0	285.8
Consumption Expenditures	278.9	276.7	272.3	265.0
Personal Saving—d	20.6	18.9	21.7	20.8
CORPORATE PRE-TAX PROFITS*		43.9	45.6	42.4
Corporate Taxes		22.4	23.3	21.6
Corporate Net Profit		21.5	22.3	20.7
Dividend Payments		12.4	11.5	12.0
Retained Earnings		9.1	10.8	8.8
PLANT & EQUIPMENT OUTLAYS	37.3(e)	36.9	36.5	34.5

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Sept. 21	287.8	289.7	284.2
MWS Index—per capita*	1935-'9-100	Sept. 21	218.0	220.2	219.6
Steel Production	% of Capacity	Sept. 28	82.5	82.1	101.6
Auto and Truck Production	Thousands	Sept. 21	63	69	49
Paperboard Production	Thousand Tons	Sept. 21	295	299	273
Paperboard New Orders	Thousand Tons	Sept. 21	260	266	253
Electric Power Output*	1947-'49-100	Sept. 21	229.8	229.0	219.8
Freight Carloadings	Thousand Cars	Sept. 21	725	741	822
Engineering Constr. Awards	$ Millions	Sept. 26	342	329	483
Department Store Sales	1947-'9-100	Sept. 21	126	131	131
Demand Deposits—c	$ Billions	Sept. 18	55.1	55.7	55.9
Business Failures	Number	Sept. 21	287	237	262

*—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d) Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

PRESENT POSITION AND OUTLOOK

metals cut production to reduce surpluses. Lumber production is declining; output of fabricated metal products (which includes structural parts, stampings and tin cans) is about stable. The Federal Reserve's index of machinery production is in a short term uptrend, but this reflects mainly heavy production of electrical machinery. In general, industrial machinery output has begun to decline.

Among soft goods, food, beverage and tobacco industries are enjoying an uptrend. Textile and apparel output is about stable. Chemical production is still gaining, although more slowly, and paper production is in a slight decline.

* * *

FREIGHT CARLOADINGS — this reliable indicator of the general business trend has recently been running about 12% below the comparable period of 1956. Part of this decline reflects, of course, the continued inroads being made by truck carriers. But it's worth noting that even a few months ago trucking lines themselves were finding business slipping; in the second quarter, truck tonnage was also slightly below a year ago. Concern over inventory always hits rail traffic hard; even before production itself is cut back, shipments to buyers begin to lag. **The freight figures suggest that businessman are now intensifying efforts to arrest inventory growth.**

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1957 Range High	1957 Range Low	1957 Sept. 20	1957 Sept. 27
300 Combined Average	346.6	301.8	309.3	301.8L
4 Agricultural Implements	282.4	238.9	244.4	238.9L
3 Air Cond. ('53 Cl.—100)	122.8	94.1	96.4	94.1L
9 Aircraft ('27 Cl.—100)	1388.8	939.5	953.7	939.5L
7 Airlines ('27 Cl.—100)	1022.5	641.6	661.7	641.6L
4 Aluminum ('53 Cl.—100)	464.5	329.4	333.6	329.4L
6 Amusements	172.6	141.4	144.3	141.4L
9 Automobile Accessories	384.4	334.5	345.2	334.5L
6 Automobiles	54.3	45.7	47.6	45.7L
4 Baking ('26 Cl.—100)	29.7	26.3	28.4	27.9
3 Business Machines	1285.3	956.2	1059.0	1028.2
6 Chemicals	652.3	544.5	556.5	544.5L
4 Coal Mining	25.1	20.1	20.9	20.1L
4 Communications	106.0	89.8	92.6	89.8L
9 Construction	126.8	110.6	113.1	110.6L
7 Containers	799.9	739.5	762.1	754.6
7 Copper Mining	307.6	210.2	216.3	210.2L
2 Dairy Products	112.4	103.8	111.3	111.3
6 Department Stores	89.2	80.1	83.4	82.6
5 Drugs-Eth. ('53 Cl.—100)	259.2	175.2	228.1	226.3
6 Elec. Eqp. ('53 Cl.—100)	244.4	201.4	210.5R	201.4L
2 Finance Companies	584.5	525.0	530.8	536.2
6 Food Brands	280.2	258.6	261.3	258.6L
3 Food Stores	183.9	153.8	178.9	177.2

(Nov. 14, 1936 Cl.—100)	1957 Range High	1957 Range Low	1957 Sept. 20	1957 Sept. 27
100 High Priced Stocks	236.9	206.3	211.4	206.3L
100 Low Priced Stocks	415.9	354.1	362.7	354.1L
4 Gold Mining	726.2	627.2	647.0	640.0
4 Investment Trusts	184.5	161.8	163.4	161.8L
3 Liquor ('27 Cl.—100)	1094.5	925.4	925.4	925.4
9 Machinery	523.4	410.5	436.1	410.5L
3 Mail Order	174.6	154.1	154.1	154.1
4 Meat Packing	142.6	109.0	114.6	109.0L
5 Metal Fabr. ('53 Cl.—100)	198.3	160.2	167.8	160.2L
10 Metals, Miscellaneous	420.9	339.9	356.1	339.9L
4 Paper	1060.1	821.0	831.4	821.0L
22 Petroleum	914.4	749.7	782.6	757.9
21 Public Utilities	263.6	243.9	246.4	243.9L
7 Railroad Equipment	91.4	72.2	74.8	72.2L
20 Railroads	72.7	55.1	57.9	55.1L
3 Soft Drinks	509.8	441.3	454.1	441.3L
12 Steel & Iron	393.0	306.5	318.3	306.5L
4 Sugar	116.9	97.9	107.4	105.5
2 Sulphur	926.7	655.7	697.7	655.7L
11 Television ('27 Cl.—100)	36.0	30.6	31.6	30.6L
5 Textiles	149.9	116.3	119.1	116.3L
3 Tires & Rubber	197.6	164.0	171.5	165.9
5 Tobacco	96.4	87.0	96.4	96.4
2 Variety Stores	273.7	253.0	255.6	253.0
15 Unclassif'd ('49 Cl.—100)	168.9	152.3	155.3	152.3L

H—New High for 1957. L—New Low for 1957.

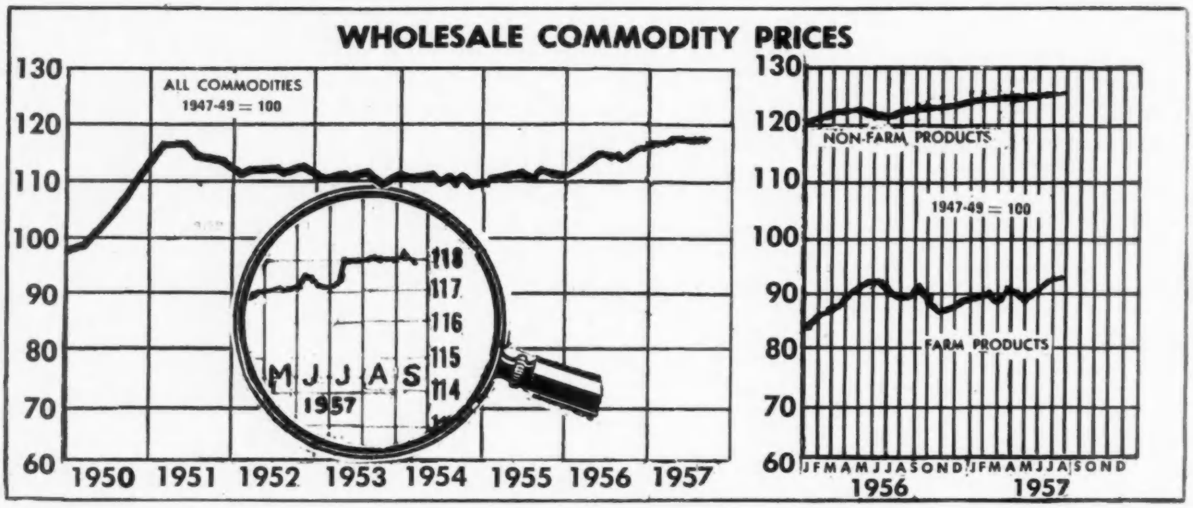
Trend of Commodities

SPOT MARKETS — Weakness in sensitive commodity prices continued at an accelerated pace in the two weeks ending September 27 and the Bureau of Labor Statistics' Index of 22 such commodities fell 2.1% to close at 85.8. At this level, the index had decisively penetrated the bottoms of recent years and was flirting with the post-Korean low of 85.4, reached in October, 1953. In the face of continuing talk of inflation, this index has declined sharply from its November, 1956 high of 94.4 and its July, 1957 top of 90.4.

While the sensitive index was falling 9.1% from its November, 1956 peak, the Bureau of Labor Statistics' comprehensive index of wholesale prices had gained 1.6% during the same period. In recent weeks, however, this indicator has been weakening, dropping ½% in three weeks.

FUTURES MARKETS — Futures prices were almost unanimously lower in the two weeks ending September 27. Cotton was about the only staple able to buck the down-trend. The Dow-Jones Commodity Futures Index lost 2.71 points, to close at 154.87, almost duplicating the year's low of 154.49, reached in May.

Wheat futures all were lower, the December option giving up 4¼ cents to close at 216¼. Participation in the soil bank program thus far is running far under a year ago, according to a Department of Agriculture estimate and the deadline for entering this program is Oct. 4, 1957. Exports are slackening, too, so that only the placement of a record amount of wheat in the loan can prevent serious pressure on prices.



BLS PRICE INDEXES 1947-49—100	Date	Latest Date	2 Wks. Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Sept. 24	117.7	118.1	115.5	60.2
Farm Products	Sept. 24	90.3	92.5	90.1	51.0
Non-Farm Products	Sept. 24	125.7	125.8	123.1	67.0
22 Basic Commodities	Sept. 27	85.8	87.5	91.7	53.0
9 Foods	Sept. 27	82.2	84.0	82.7	46.5
13 Raw Ind'l. Materials	Sept. 27	88.2	89.8	98.4	58.3
5 Metals	Sept. 27	96.0	97.6	124.6	54.6
4 Textiles	Sept. 27	79.7	81.3	80.8	56.3

MWS SPOT PRICE INDEX

14 RAW MATERIALS

1923-1925 AVERAGE—100

AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

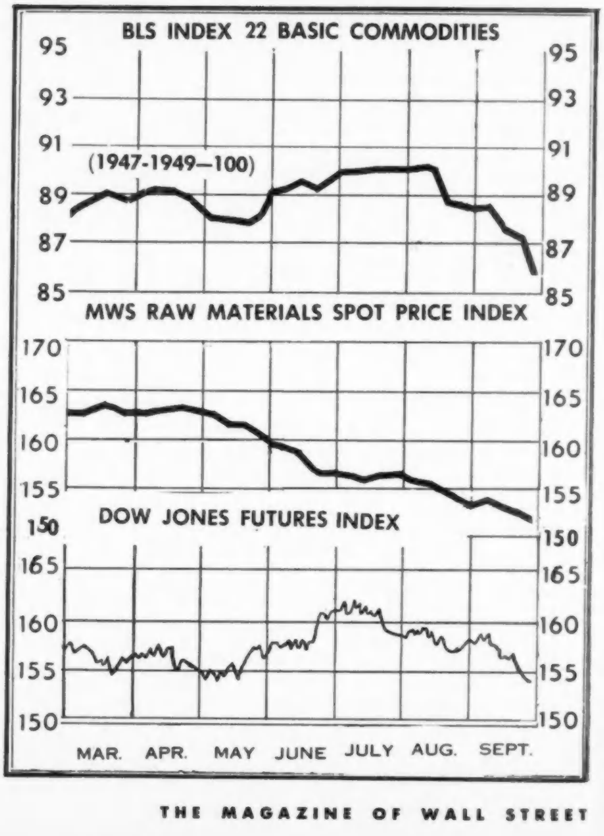
	1957	1956	1953	1951	1945	1941
High of Year	166.3	169.8	162.2	215.4	98.9	85.7
Low of Year	151.8	163.1	147.9	176.4	96.7	74.3
Close of Year		165.5	152.1	180.8	98.5	83.5

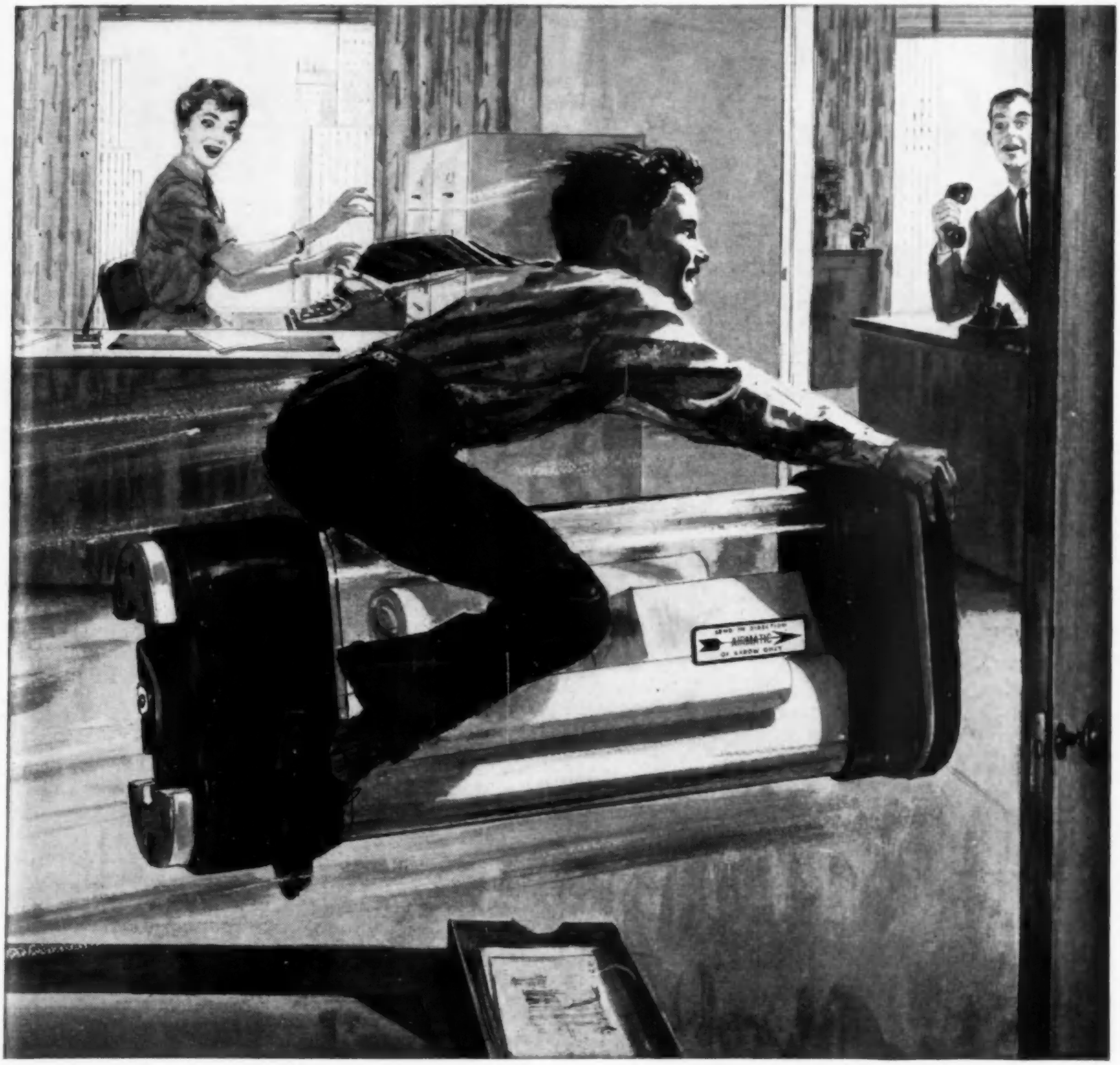
DOW-JONES FUTURES INDEX

12 COMMODITIES

AVERAGE 1924-1926—100

	1957	1956	1953	1951	1945	1941
High of Year	163.4	166.7	166.5	214.5	106.4	84.6
Low of Year	154.5	149.8	153.8	174.8	93.9	55.5
Close of Year		162.7	166.8	189.4	105.9	84.1

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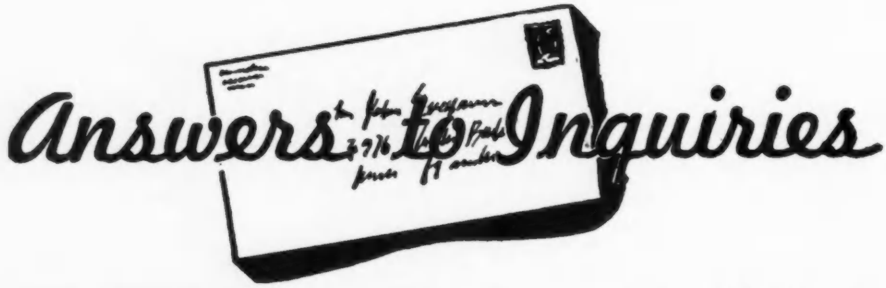


Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at* reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Archer-Daniels-Midland Company

"I have been a subcriber a good many years and rarely make inquiries. However, I am interested in receiving information in regard to Archer-Daniels-Midland Co. and would appreciate whatever recent data you have."

E. S., Jamestown, Va.

Archer-Daniels-Midland Co. is the leading domestic producer of flaxseed products, one of the leading soybean products producers, second largest in grain storage capacity and a large flour miller. The vegetable oil, alfalfa meal and other operations are affected by the weather and price support policies, etc.

Archer-Daniels-Midland Co. reported sales of $218,765,339 for the fiscal year ended June 30, 1957, a gain of 3.7% over sales of $210,947,884 in the 1955-56 fiscal year. The figures do not include grain division transactions.

Net profit for the year was $5,204,491, equal to $3.36 a share, compared with earnings of $5,871,506, or $3.60 a share, in the previous year.

The profit was above the average for the previous four years. Equity in ADM stock reached a new high of $60.02 a share on June 30, an increase of $2.31 over a year ago.

With no bank loans at the year-end, the company remains one of the nation's major corporations without any bank debts, loans or preferred stock.

During the year the company purchased enough of its own stock in the open market to handle several acquisitions and to provide for employees' stock purchases under a stock option plan. This contributed to a decrease in working capital from $50,644,856 to $46,737,180 during the year. Approximately $2,200,000 in net current assets of Federal Foundry Supply Co., which ADM purchased July 31, will be added to consolidated working capital.

Four quarterly dividends of 50 cents a share, totalling $3,194,822 and equal to 61% of net profits, were paid during the year.

The company's grain division handled a record quantity of grain during the year and had record earnings. Earnings of the alfalfa division improved substantially. Government price support programs, however, restricted the normal flow of soybeans and flaxseed to market. The resulting high prices for these commodities and disproportionately low prices for processed products reduced profits for the latter.

ADM, a leading producer of agricultural commodities, manufactures about 1000 standard products. The company operates 141 plants and elevators in the United States and Canada.

The company's expansion has been worldwide and the diversification program should be reflected in future earnings. This program of expansion was accelerated during the past year.

Manufacturing activities of the international division were extended to several new foreign markets. This was accomplished by purchase of an interest in a Holland chemical plant and construction of another in West Germany. Two chemical plants are under construction in Belgium and Spain, and licensing agreements opened several other new markets, notably in Italy and South America. The company's equities in these foreign ventures, which are joint investments with local interests, range from 25 to 50%.

ADM also established itself in the formula feed business in Mexico with construction of a plant in Mexico City and purchase of an interest in existing formula feed concerns there.

Sales prospects for the new fiscal year have been enhanced by recent expansions, newer products and increased efficiency of present plants. —END

International Minerals & Chemical Corp.

"Please advise on the near and intermediate-term prospects of International Minerals & Chemical Corp. and please report on recent sales and net income."

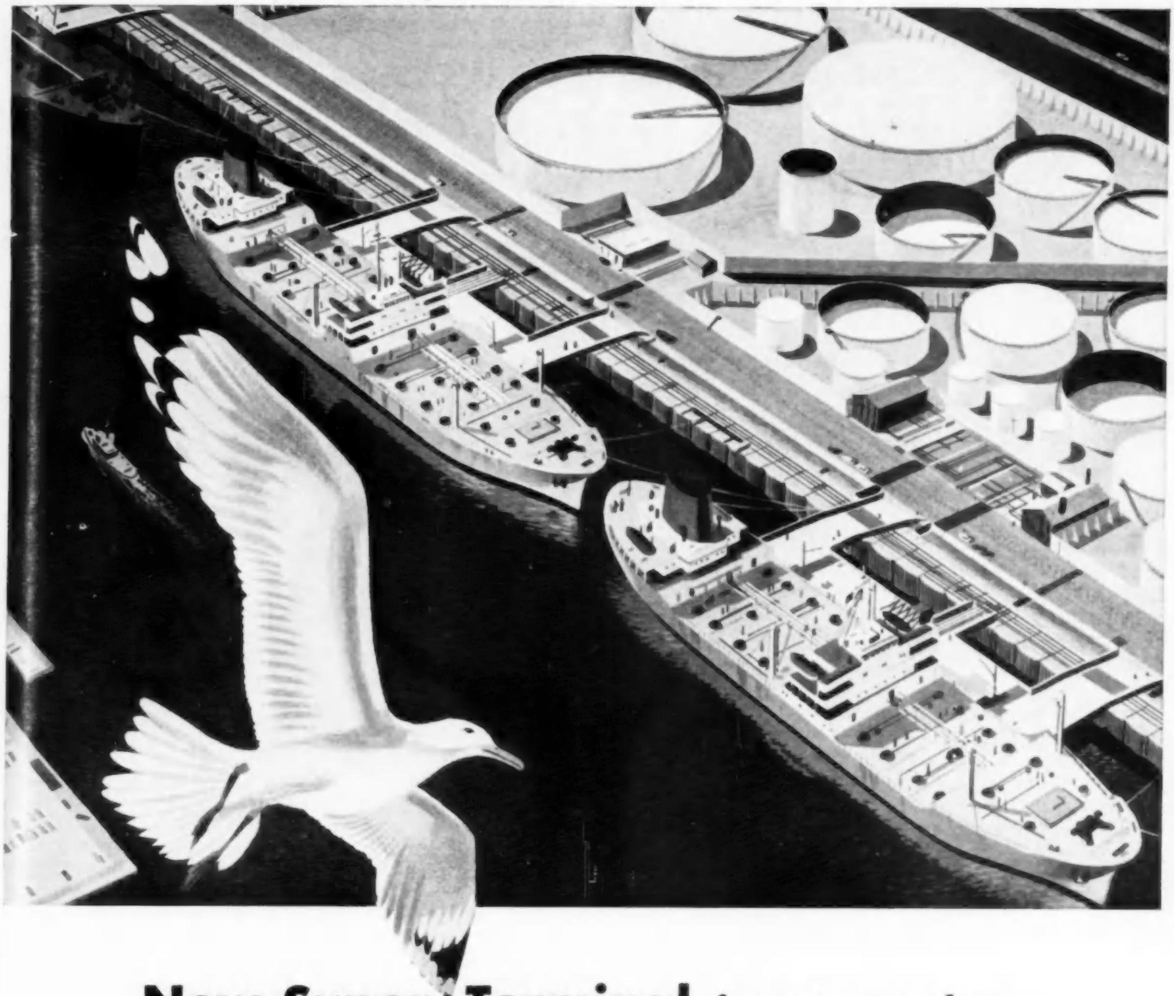
A. L., Portland, Me.

International Minerals & Chemical Corp. is an important factor in the fertilizer industry. It is a large producer of potash and phosphate rock. It also produces industrial minerals used mainly in the glass, pottery and construction industries.

Record sales and a 29% increase in net earnings after taxes for the fiscal year ended June 30, 1957, were reported by International Minerals & Chemical Corp.

Earnings for the fiscal year were $6,961,000 or $2.81 per share on the 2,337,287 common shares outstanding, compared with $5,402,000 or $2.14 per share a year ago. In addition, a

(*Please turn to page* 119)



New Super Terminal *for super tankers*

During 1956, Richfield's Marine Terminal at Long Beach, California, was expanded to make it the most modern deep-sea facility in the Long Beach-Los Angeles area.

Nearly a half-mile in length, the terminal will accommodate two giant 45,000-ton tankers and a 16,000-ton tankship simultaneously. Old-style hoses have been replaced with aluminum alloy connectors which eliminate spillage and greatly speed loading operations. New steel storage tanks now provide a total capacity of 1,500,000 barrels to handle shipments of gasolines, jet fuels, fuel oils and specialty products to Richfield's markets throughout the West, as well as deliveries to the Armed Forces.

Even as this new terminal is completed, plans are under way for an even larger facility at Long Beach—evidence of Richfield's "years-ahead" planning to provide its expanding markets with ever finer petroleum products.

The Far West—where the name Richfield stands for the best in petroleum

RICHFIELD *a leader in Western Petroleum Progress*

OIL CORPORATION

Keeping Abreast of Corporate Developments

Beech-Nut Life Savers, Inc. plans to introduce shortly a new series of strained and chopped meats to round out its line of baby food products. The new line will be packed by George A. Hormel & Co., whose trade mark will appear on the same label as Beech-Nut's.

Borg-Warner Corp. through its Marvel-Schebler Products division has begun production of control rod drive mechanisms for use in controlling energy level and power output of reactor cores in nuclear powered electric generating plants. The division has shipped seven of twenty-four such mechanisms to Westinghouse Electric Corp. for installation in generating station under construction at Shippingport, Pa., for the Atomic Energy Commission and Duquesne Light Co.

Burroughs Corp. through its ElectroData division has begun production of Datatron 220 Electronic Data processing system, to sell at from $500,000 to $600,000. It is said to operate at speed from 10 to 25 times faster than computers in same price range now on the market, and just under speeds of giant computers retailing for over $1,000,000. Rentals on the new machine, equipped for data processing, will be from $13,000 to $14,000 a month, against $75,000 a month for giant machines, according to Burroughs. The computer, first in medium-price field to operate on magnetic core memory system, will file up to 600 million characters electronically and will attain speeds of over 300,000 additions or subtractions, 30,000 multiplications and 15,000 divisions a minute. Burroughs expects to sell 100 machines within the next year, with deliveries to begin in mid-1958.

Carrier Corp. has introduced a portable room air-conditioner that can cool, heat or dehumidify and, it weighs less than 60 lbs. When mounted in the window as a conventional room air-conditioner, it cools and dehumidifies, filters and circulates the air. When reversed it becomes a heat pump to warm the air. Because of this dual operation, the portable air-conditioner is equipped with identical grilles on either side. Its "turnaround" feature makes it the first air-conditioner to include both interior and exterior styling, according to Carrier Corp.

Clark Equipment Co. and Tutt Bryant, a distributor, have jointly formed Clark Equipment Australia, Pty, Ltd. to distribute products in Australia and manufacture fork lifts and tractor shovels at Hornsby, a suburb of Sydney, New South Wales.

General Electric has announced recently that it has developed a new static programmer which automatically adjusts electrostatic precipitator voltage for maximum cleaning of smokestack discharges. The automatic programmer has broad applications in the steel, cement, electric utility and other industries where stack discharges present a soot and dust problem, GE points out. It has no moving parts and can be applied to existing precipitators, as well as to new installations. Precipitators are placed below smokestacks to remove particles from smoke, thereby allowing only "clean" discharges to escape the stack.

International Business Machines Corp. has recently introduced a computer of relatively small size which it is said can handle certain engineering problems faster than its larger counterparts.

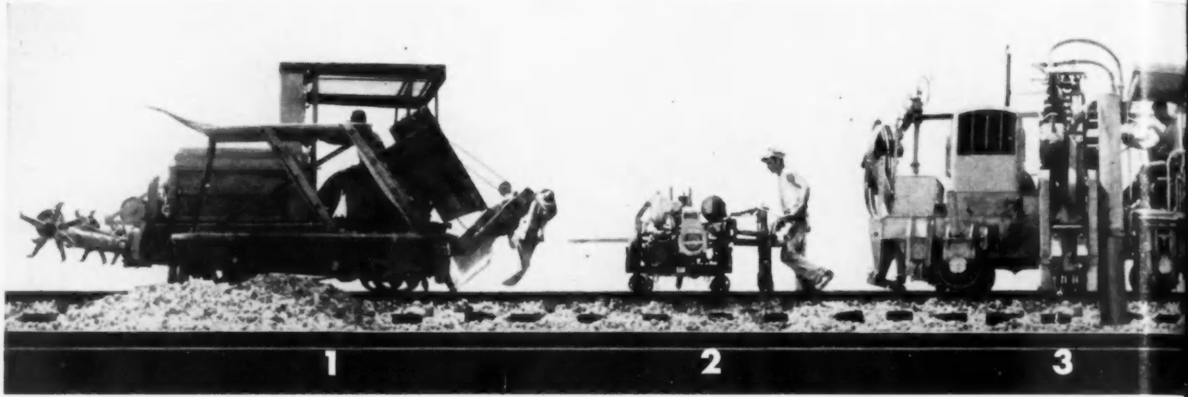
IBM also displayed recently a time-clock which punches time cards in computer language so that the cards may be directly fed into a computing system for payroll calculations.

The new Time Punch, the company estimates, will save a time clerk working on a payroll of 1200 employees, ten hours a week. The new machine is designed to eliminate manual totaling and conversion to punch cards, making it possible for the clerk to take the time cards and feed them directly to a payroll computer. The Time Punch, the company announced, will sell for $1,250.

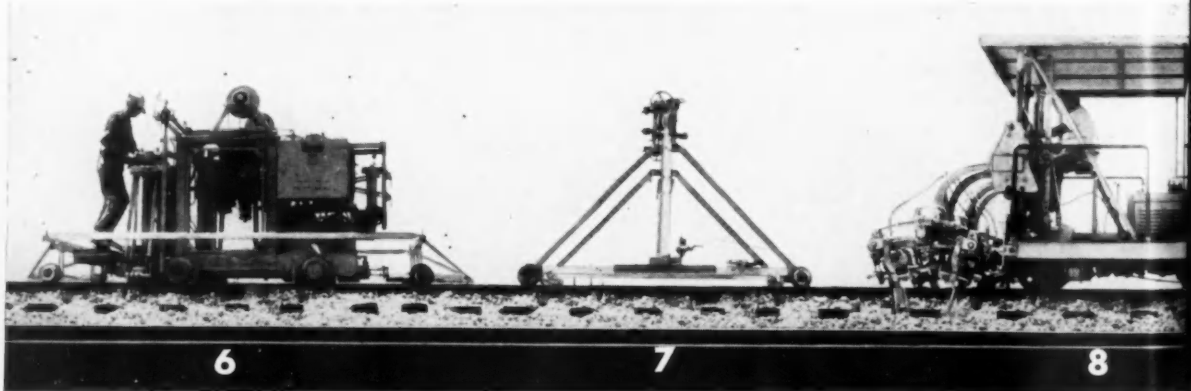
Chrysler Corp. will offer as optional equipment on new 1958 Chrysler and Imperial automobiles, Auto-Pilot, a new pushbutton automatic driver assist.

The device provides automatic throttle control, acts as a speed reminder, and enables the motorist to cruise on the nation's expanding network of super-highways without foot on the accelerator if he desires. *(Please turn to page 119)*

Mechanized muscle keeps
so your freight moves faster..



Mechanized track gang rolls into action headed by ballast-regulating machine **(1)**. Its rotating iron teeth can clear out macadam crossings; plows fastened to sides move rock ballast away from ties so other machines can work on them. Pneumatic spike puller **(2)** easily pulls out 7″ spikes which hold ties to rail.



Track leveling machines **(6 and 7)** and power jacks raise rail and ties to proper height so that tamping machine **(8)** with power-driven arms can shove rock securely into place beneath ties. Lining machine **(9)**

MECHANIZATION is the order of the day on the New York Central.

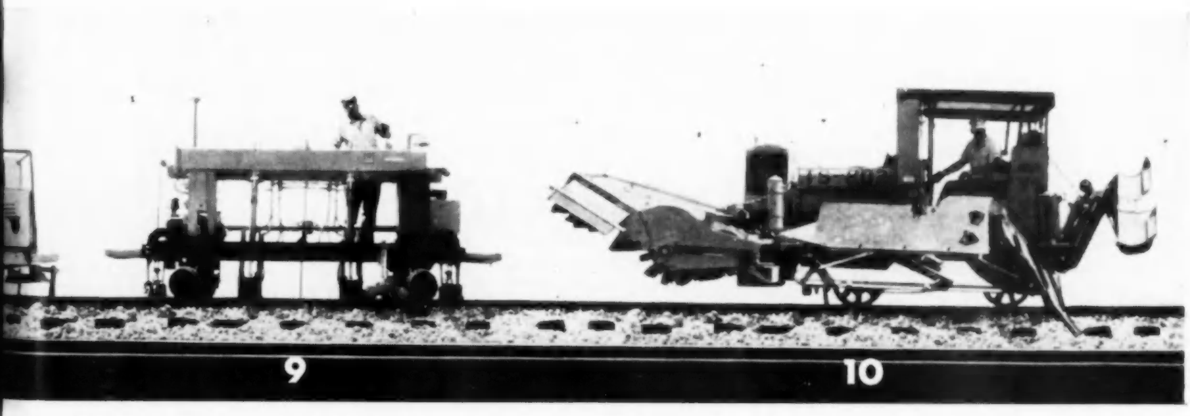
A column of the Central's maintenance-of-way equipment may look, at first, like a patent lawyer's nightmare. But these weirdly designed machines can effortlessly grind out smooth, fast roadbeds at an incredible 4000 feet a day!

This means *more track* open to *more trains* . . . *more days* each year. As a result, trains keep moving faster, smoother, with less delay. A sample stretch of track may get the undivided attention of a dozen strange, new machines. Some of this unique, costly equipment, however, is in danger of being outmoded on the Central . . . *before* most of the country's railroads have ever had a chance to use it.

The Central is already experimenting with *newer* maintenance machines: a giant "fishing pole" that will string high-tension wire . . . a tie picker-upper that bundles these heavy beams

oadbed in trim
and your ride is smoother

The tie-replacing machine that follows **(3)** does several jobs. Machine lifts track, kicks old cross pieces out from under rail and pulls in new ones. Power spike driver **(4)** hammers in new spikes—four at a time. Then ballast regulator **(5)** sweeps rock back between ties for tamping machine that comes later.



then nudges track a fraction of an inch right or left into perfect alignment. Ballast regulator **(10)** with rubber broom occupies clean-up spot; banks rock back alongside the track and sweeps ties clean.

like bobby pins . . . a new-type traveling "sky hook" crane to erect signal equipment.

And soon the Central hopes to get maintenance-of-way machines *off* the track completely . . . onto a service road that will run alongside the right-of-way. This will give maintenance crews more working time . . . yet keep tracks open.

The new mechanized service equipment is New York Central rolling stock that the public rarely sees. But you will surely feel its effects—in a better ride . . . in faster freight, passenger and express service. From any angle, this progressive railroad has a speedy, new look. Ask our freight salesman to tell you about it.

Route of the "Early Birds"—Fast Freight Service

New York Central Railroad

The New Tariff Policy to Meet Import-Export Restrictions

(*Continued from page* 73)

production; this in turn reduces the cash available for exploration and drilling for new supplies of oil. A war could catch us with a petroleum industry lacking adequately developed domestic sources of crude.

The coal industry has not sought escape clause relief from residual oil imports. "Coal State" members of Congress have introduced numbers of bills which, if enacted into law, would establish restrictive quotas on residual imports. None have gotten beyond the House Ways & Means Committee. Likewise, legislators from oil producing states have proposed similar measures applicable to the importation of crude oil. These bills, like those applicable to residual oils, quietly sleep with the Committee. All of the measures have been sparked by the belief that the Administration would be too slow in providing escape clause relief.

The cotton textile industry, severely hurt by imports from Japan, has likewise shunned the escape clause route and appealed to Congress. Thus far, no legislative action has occurred, nor is such action likely until Congress re-opens the foreign trade issue upon the Administration's assured request for an extension of the Reciprocal Trade Agreements Act.

Other large industries which have sought relief, either via escape clause or tariff legislation, include lead and zinc mining, flourspar, pottery and chinaware. None has gotten to first base. Pottery and chinaware have been particularly hard-hit by Japanese competition as has the fish canning industry of our Pacific Coast.

Admittedly, of the 87 industries which have protested foreign competition, only five or six individually loom large in the national economy. In the aggregate, the smaller industries are pretty important. Further, each has its representatives in Congress. Singly, none can make a loud noise under the Capitol dome, in chorus they can be heard—impressively!

In summary, the Reciprocal Trade Agreements program has not produced the favorable results its supporters predicted. It has been in effect for 23 years. Our exports continue way ahead of imports. We still give away billions each year in agricultural products, or in other economic aid. We have scrupulously honored our trade agreements with other nations, only to have many of them hamper sales of our products abroad through internal marketing regulations and restrictions imposed *after* the American goods cleared foreign ports of entry. Thus far, we have resorted to no such practices here, although one state—South Carolina—has passed a law requiring retail establishments selling Japanese textiles so to inform their patrons through a store door announcement reading "Japanese Textiles Sold Here."

As the Reciprocal Trade Ageement Act moves toward expiration, or possible limited renewal, only one nation—Japan—has shown any real concern that we may "crack down," or at least tighten our foreign trade agreements. On a September visit to the United States, Japan's Foreign Minister Aiichiro Fujiyama, said that if the United States tightened import restrictions against goods of his country "through tariffs or by any other means" the Nipponese would suffer economic hardships. He frankly said that the maintenance and development of the American market is a matter of "life and death" to the Japanese economy.

In making this statement, the Japanese statesmen said that his country was doing everything possible to avoid "dumping" on American markets, and was trying to schedule production of new articles of merchandise that would be marketable here and not competitive with U. S. industries. He also said his government is doing everything possible to prevent Japanese exports to the United States from expanding too rapidly or from concentrating unduly on specific items.

Noting that 35 percent of Japan's imports are of U.S. origin and that 20 percent of her exports are destined for this country, the Foreign Minister said that the United States ranks first in his country's foreign trade. After Mr. Fujiyama's talk here, Sen. John Sparkman, Alabama Democrat, was in Japan and, in a Tokyo press conference, said that he found Japanese-United States trade the chief concern of the Nipponese statesmen and economists.

Elsewhere about the world there seems to be indifference, even ignorance, of the fact that we may soon drastically alter our international trade policies. Certainly, no other nation has expressed the interest and concern displayed by Japan. Maybe the others think the United States will continue to be Santa Claus—free economic aid, plus free trade!

The people, as represented in dozens of industries – large, medium, and small – feel we have given too much in the way of cash and trade concessions. *Ergo*, the Congress is going to move in and reassert its Constitutional prerogatives to impose tariffs and regulate foreign commerce.

This forebodes a limited renewal of the Reciprocal Trade Agreements act—long enough only to permit Congress to write a new Tariff Act that will afford protection to industries which have been frustrated by the cumbersome escape clause procedures of the existing law. Our foreign trade has a rendezvous with destiny. It is not slated for extinction, but the shaping of its course seems likely to be taken from the Administration and returned to the Halls of Congress —END

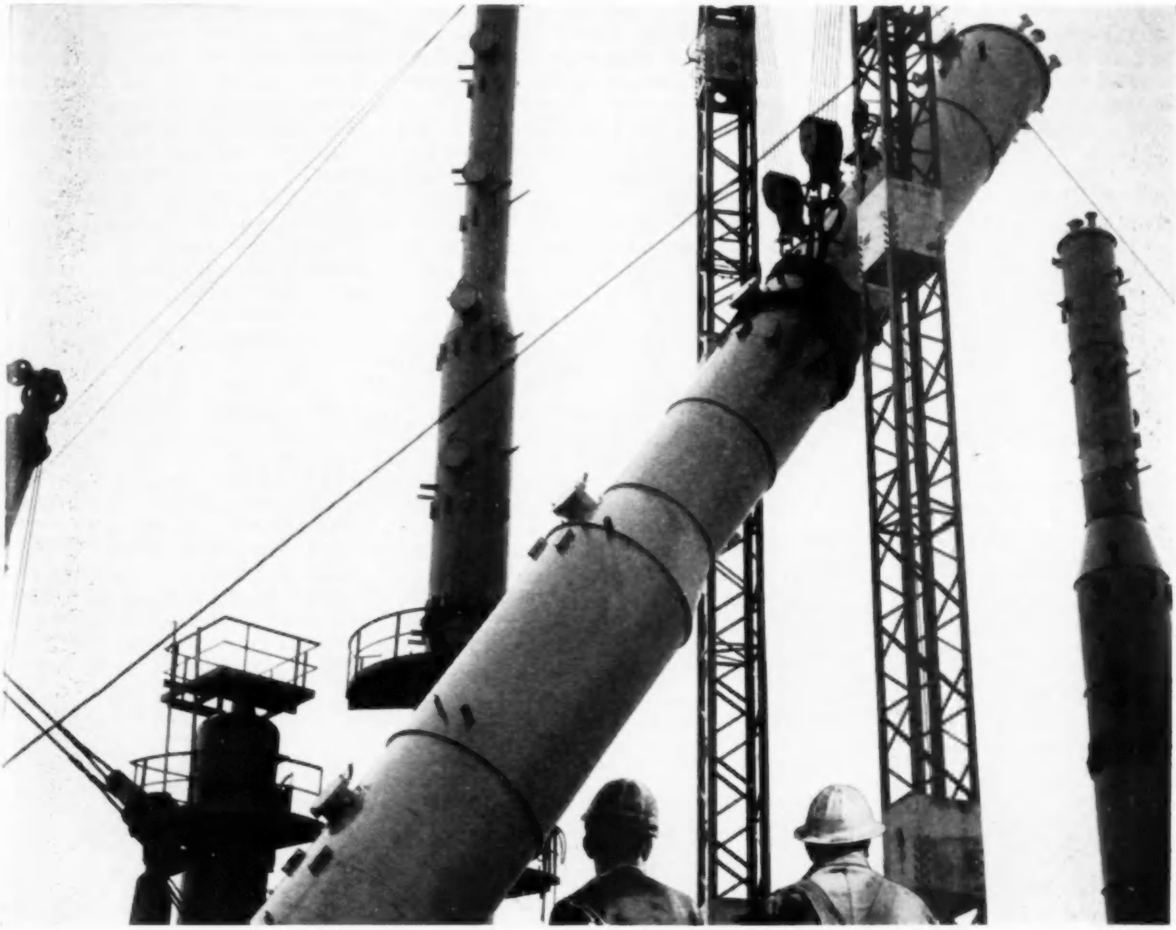
A Look Behind the Scenes of Germany's Prosperity

(*Continued from page* 79)

as the government hopes, keep domestic prices in line depends, of course, on the price level abroad, particularly in the U.S.

One thing is sure. No responsible German feels that in the present situation a revaluation of the German currency would be warranted. The argument is not only to the effect that it would be up to the inflationist countries to adjust their currencies downward rather than for Germany to make an upward evaluation and thus be penalized for its ability to maintain an even price level in an inflationary world. Even stronger is the argument that the economic facts of life both in Germany and abroad are working towards an eventual diminution of Germany's trade surplus as well as its gold and dollar reserves.

However, it is well to remember that Germany has always had a way of exporting top engineering,



Another new 12,000-barrel Catalytic Reforming Unit is being added at one of Pure Oil's refineries

Pure Oil rebuilds its four refineries to keep ahead of the Joneses' car

Since 1940, we have added $140,000,000 worth of new refining equipment needed to make the modern fuels required by today's and tomorrow's cars

You *could* drive a 1957 car on 1940 gasoline, but you'd sure be breathing everybody's dust and paying some heavy repair bills.

That's the reason Pure Oil has been researching, testing and rebuilding to provide the increasingly complex fuels and lubricants needed for each new development in engine design.

Since 1940, we've put $140,000,000 into our four refineries to keep ahead of improvements in your engine. And we've also built bigger: our refineries today are turning out 6,854,564 gallons of oil products every day, against only 3,390,030 gallons back in 1940.

Despite all this, PURE scientists, production and refining experts are as hard at it as ever, because the cars of tomorrow are going to demand still better fuels and lubricants.

They'll be ready and waiting for you . . . wherever you see the "Be *sure* with PURE" sign.

THE PURE OIL COMPANY, 35 East Wacker Drive, Chicago 1, Illinois.

PURE—a progressive company in a progressive industry—celebrates Oil Progress Week October 13-19.

PURE

BE SURE WITH PURE

industrial, and financial brains to other countries. The shortage in men of this quality and caliber around the world undoubtedly means that Germany has been able to place her people most advantageously to insure the buying of German capital machinery, as well as other products, in order to maintain and support advantageous trade arrangements.

As of now, such a turning point has not come about. Germany's foreign currency reserves are mounting by leaps and bounds. Foreign capital has of late literally flooded Germany, much to the dislike of all authorities since the incoming funds are strictly of a speculative nature, hoping to cash in if the mark should be revalued. The most important way in which these funds find their way into Germany is in form of prepayments for German exports (to protect the foreign buyer against a revaluation prior to shipment) and delayed payments of German imports (to give the foreign sellers a chance to benefit from a devaluation). There is little that can be done against this flood of short-term foreign capital. The banks have, so far, managed to sterilize most of the incoming capital transfers so that they do not add to the total money volume. However, the prepaid funds of German exporters can not be skimmed off in this way and are a definite source of inflationary pressure.

What the German authorities would like most is that the rest of the world really believed their categorical denial of a mark revaluation. They complain that far too much is written about it in foreign papers (although the German papers are at least as full about it). It is generally hoped that the speculation in favor of the mark will let up after the meeting of the International Monetary Fund in Washington in September and the conference of the Organization of European Economic Cooperation (OEEC) in Paris in October.

In the meantime, several German cabinet members have advanced immediate plans for the reduction of Germany's gold and dollar surplus. Most of these are based on the idea of large-scale capital exports and long-term loans to Germany's European trading partners. Well meant as these proposals may be, they can not be considered as very realistic. Germany does not have excess capital in significant quantities. German interest rates are higher than those prevailing abroad and foreign countries fighting inflation may not be too willing to increase their money volume by letting in additional funds from abroad. Germany itself has fairly strict prohibitions against direct foreign investments for that very reason.

Thus, in the view of the German business and financial community, the balancing of trade and hard currency reserves between Germany and its European trading partners, without which the Common Market will remain a fiction, can and should only come about through the normal processes of the market economy which, if one is only willing to wait, always makes its own optimum adjustments. The question is, of course, how long the rest of Europe is willing to wait for the occurrence of this event. —END

Appraising Investment Caliber of Finance Companies Today

(*Continued from page* 83)

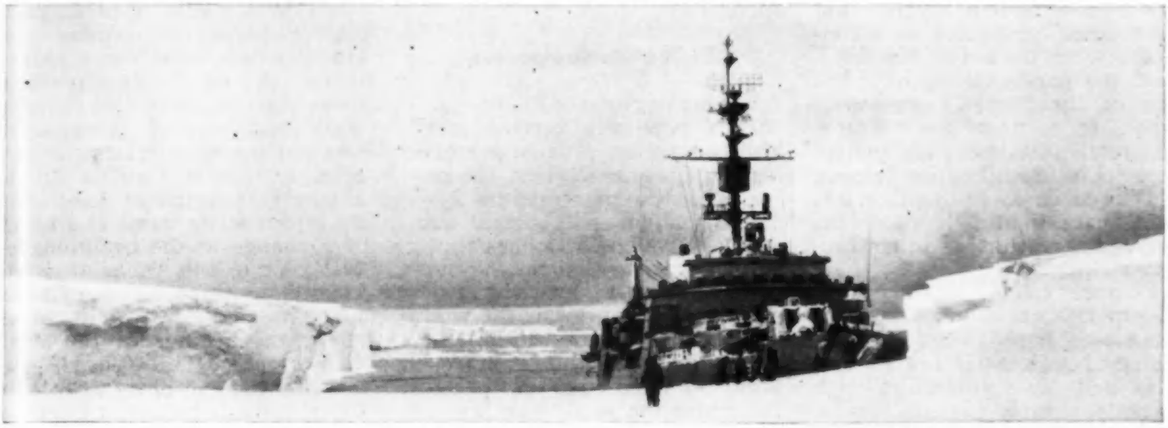
determinant of current profits. Loss experience continues to be very good, particularly of the dominant companies, and no change is expected in this situation so long as economic conditions remain favorable. Instalment credit repaid in 1956 aggregated $37.1 billion, compared with $33.7 billion a year earlier; extended credit measured $39.6 billion last year, rising only slightly above the $39.1 billion in 1955. The leading finance companies generally consider repossession only as a last resort, first extending the length of time over which repayment is made when a customer is unable to meet payments.

Largely as a result of rising wages, operating expenses of the finance companies have been on an up-trend during the past decade. While the finance rates have been altered during past years depending on the cost of doing business, and while most of the increased costs can gradually be passed on to the customers, the larger companies have made particularly good progress in controlling costs. Besides the expense of obtaining new business — which includes the opening of new branch offices, credit investigations and collections, an expense of major proportions is the money used in the business, which consists of capital and borrowed money, the latter including a wide range of debentures, notes and bank loans. The finance companies have been coming to the capital market in particularly large numbers during the past months, the main reason for the sale of debentures being the need for refunding the old debt as it falls due. Despite the fact that the old securities bearing 2½% to 3¼% coupons are being replaced with new securities bearing 4¾ to 5¾% coupons (and in many cases containing 10 year non-callable provisions), the restrictive effect on future profits by the additional charges on the new debt would be far more than offset by a return to lower short term interest rates, as only about one-third of a sales finance company's total borrowings are of a long term category. The cost of borrowing obviously remains an important influence on results. An easing in the present tight money market would find the finance companies among the important beneficiaries.

Competition from Commercial Banks

Competition has for years been active not only among the many finance companies, but also with other groups of lenders, the financing of merchandise sales on a time-payment basis being essentially a service function. Commercial banks, the main competition of the finance companies, entered the sales financing field in the mid-1930's, and for the next decade perceptively increased their percentage of total retail instalment business. Peak bank competition in both automotive and other consumer goods retail paper seems to have been reached in 1946. At the end of that year, commercial banks held 66% of all automotive retail instalment paper, compared with just 34% at year-end 1940. The banks held 82% of all other consumer goods retail instalment paper at the close of 1946, up sharply from 63% at the end of 1940. Since 1946, however, the finance companies have achieved a much better competitive position. By the end of last year, finance com-

Only STEEL can do so many jobs so well



Operation Deep Freeze. Last year, to prepare Antarctic base sites for the present International Geophysical Year, U. S. Navy Task Force 43 made an almost complete circle around Antarctica. Lead vessel was the USS Glacier, powerful pride of the Navy's icebreaker fleet. In this startling picture, the Glacier pokes her tough steel nose into the desolate Atka Bay ice barrier so that scientists and Navy men can reconnoiter and plant the American flag.

The Finest Printing is Done on Clay. High-gloss papers (called enamel-coated) are covered with a thin coating of smooth, hard, lustrous clay to keep printing inks from being absorbed into the paper fibers. That clay is mixed in tanks like this one. Tanks are stainless steel because nothing else can withstand the grinding action of the clay and at the same time keep it pure and white. In fact, this stainless tank has lasted seven times as long as the previous non-stainless tank.

High Line At Low Cost. These gigantic electrical transmission towers are 198 feet high—because they must provide 100 feet of clearance for ships passing underneath in Old Tampa Bay, Florida. By using a special USS MAN-TEN High Strength Steel, 6½ tons were trimmed off the weight of each tower. The total money saving for four towers amounted to $7,200 . . . far more than the slight extra cost of the high strength steel. Another job well done with steel!

UNITED STATES STEEL

American Bridge . . . American Steel & Wire and Cyclone Fence . . . Columbia-Geneva Steel
Consolidated Western Steel . . . Gerrard Steel Strapping . . . National Tube . . . Oil Well Supply
Tennessee Coal & Iron . . . United States Steel Homes . . . United States Steel Products
United States Steel Supply . . . **Divisions of United States Steel Corporation, Pittsburgh**
Union Supply Company · United States Steel Export Company · Universal Atlas Cement Company

USS and MAN-TEN are registered trademarks of United States Steel

Watch the **United States Steel Hour** on TV every other Wednesday (10 p.m. Eastern time).

7-2229

panies held 56% of all automotive retail instalment paper, and had reduced the bank's proportion of other consumer goods paper to 66%. These figures suggest that the finance companies have concentrated on the automobile business, the banks taking over the bulk of the "other" consumer's paper. It is important to note that retail instalment automotive paper is of much heavier volume, totaling more than $13 billion last year, more than four times the aggregate amount of other consumer's papers.

Finance companies have one all-important advantage over the commercial banks. The former established nationwide branch systems and have entered foreign markets, notably Canada. Banks, on the other hand, operate under severe limitations with respect to branch expansion and have, therefore, been unable to follow their customers about the nation. Financing rates have naturally become of chief competitive importance. While the nation's commercial banks have generally worked with considerably lower rates than the finance companies, the latter have by and large provided substantially more services and allowances. The rate differential, therefore, has not proven as important in many segments of the business as might be imagined.

The major finance companies also have an important stake in the insurance business, because the autos sold on instalment plans must be protected against fire, theft and collisions, and inasmuch as the users of consumer credit are often covered by life insurance policies and more recently also by accident and health protection. The larger finance companies have affiliated or subsidiary insurance organizations which handle the business originated by the parent company. In common with the decidedly unfavorable loss experience of the fire-casualty insurance industry during the past few years, the results of the casualty operations of the finance companies have been poor, so that their contributions to parent company earnings have been substantially reduced. Rate increases in the casualty lines, however, have been approved in many states, and thus more profitable operations are in sight for next year. Credit life insurance, and accident and health coverage to a lesser extent, have continued most profitable, with the result that they have importantly offset the reduction of profits from the casualty operations.

Small Loan Companies

The other group of finance companies, popularly termed small loan companies, provide personal instalment loan services, the major use at the present time being debt consolidation. The small loan business, which dates back to the earliest civilized times, is now closely regulated by the various states so as to prevent the worst usurious practices of former years. Prior to the 2nd World War, the maximum loan permitted under the small loan laws of most states was $300, but it has now been increased in many jurisdictions to between $500 and $1,000. For example, the average size of loans made by the Household Finance Corp., one of the leaders in the small loan field, has steadily risen from $199 in 1946 to $399 last year, for an average maturity of 22 months. The charges made for these loans are also limited under the same laws by most states, with maximum rates between 2% and 3½% per month. Competition, however, has forced these small loan companies to charge less than maximum rates.

During the past decade, the total amount of outstanding personal loans has expanded sevenfold, and amounted to $7.2 billion at the close of last year. This strong industry growth pattern, stemming mainly from the rise in population and advancing personal income, has been accompanied by particularly active competition between the various groups of lenders. Personal loan companies held $2.4 billion of paper at the end of 1956, amounting to 32.7% of the total, a drop from 38.0% only 10 years earlier. The commercial banks held 29.3% or $2.1 billion of paper at year-end 1956, reflecting a steeper decline from the 39.1% level a decade earlier. The personal loan companies, therefore, have been able to hold their own against the banks, but the credit unions have been able to wrest a larger share of the market in the past decade, advancing from 22.9% at the end of 1947 to 38% or $2.7 billion last year.

As in the case of the sales finance companies, the operating expenses of the small loan organizations expanded sharply in the period from 1946 through 1956, resulting in declining profit margins. Expenses of opening new branch offices have been a particularly sizable factor in recent years. In this respect it is noted that operations of those small loan companies with large branch office systems in Canada will be adversely effected at least over the intermediate terms as a result of a change at the beginning of this year in the Canadian Small Loan Act, which reduced financing rates. Satisfactory improvements in earnings of the small loan companies are assured, however, by the continued growth in the volume of business. Furthermore, the steady increase during recent years in the size of the average loan has favorably effected profit margins, because the expenses involved in making and servicing a $50 loan are almost the same as for a $500 loan. The leading companies in the small loan field, such as the American Investment Company of Illinois, Beneficial Finance, Household Finance Corp., and Seaboard Finance, have achieved a satisfactory loss record in recent years.

The intermediate and indeed longer term prospects of the major sales finance companies particularly companies such as CIT and Commercial Credit appear bright, especially in view of the projected rise in the nation's economic growth; not only are earnings expected to exhibit good gains, but dividends will undoubtedly advance apace. While the potentials of the personal loan companies seem less assured, the managements of the leading organizations in the group are likely to continue the successful operations of past years. END

Investment Clinic

(*Continued from page* 93)

harm is being done by the heightened competition from electronics devices. Since product lines must be expanded, mounting research expenses may necessitate a dividend cut.

Dividend Summary

Taken as a whole, the dividend

"BANKER" . . . AT WORK

He's drawing on a natural gas account to keep millions warm this winter.

In summer, billions of cubic feet of natural gas are pumped from the Southwest—for deposit underground near northern markets in old gas-producing formations.

In winter, these underground bank accounts are drawn upon to meet peak heating needs of hundreds of thousands of Columbia Gas System customers.

Columbia operates forty-five of these underground storage reservoirs. More are planned for the future. Its gas bank account has increased eight-fold in the past decade. Year after year it grows . . . as it must . . . to meet the ever-rising demands of homes and industry in the 1,400 cities, towns, and villages served by the System in Ohio, Pennsylvania, West Virginia, Kentucky, Virginia, Maryland, and southern New York . . . the Heartland of American commerce and industry.

Without underground storage . . . complicated and costly as it is . . . five more major pipelines from the Southwest would be required to supply the Heartland's needs.

COLUMBIA GAS SYSTEM

THE COLUMBIA *Gas* SYSTEM, INC.

COLUMBIA GAS SYSTEM SERVICE CORPORATION

120 East 41st Street, New York 17, N. Y.

CHARLESTON GROUP: *United Fuel Gas Company, Amere Gas Utilities Company, Atlantic Seaboard Corporation, Central Kentucky Natural Gas Company, Virginia Gas Distribution Corporation, Kentucky Gas Transmission Corporation.* **COLUMBUS GROUP:** *The Ohio Fuel Gas Company*
PITTSBURGH GROUP: *The Manufacturers Light and Heat Company, Columbia Gas of New York, Inc., Cumberland and Allegheny Gas Company, Home Gas Company*

picture is not alarming, despite the noted weak spots. Year-end extras will undoubtedly not be as generous in 1957 as they have been for the past few years — although we may see an increase in the number of stock dividends, in lieu of cash, where earnings warrant some type of extra payment. But basically corporate dividend policy will be keyed to the same factors that we have been advising investors to watch carefully. The longer that business stability continues, the more heart directors are liable to take about future prospects for their companies, and the more liberal dividend policies are likely to be. Thus, although it may sound redundant, automobile sales, new construction and capital goods spending still hold the key. If these hold up, so will dividends for most companies. If they take a turn for the worse—watch for quick retrenchment. —END

Does Advertising Spell the Difference?

(*Continued from page* 90)

Only in one category, sales, has the company not excelled. But in the important categories of pretax margins, earnings, return on invested capital, and stock market performance, Reynolds has established a superior record.

This year (1957) should see sales exceed $1 billion for the first time in the company's history. In addition, earnings will also establish a new record and will be at least $6.50 a share and may go as high as $7 per share. The stock, therefore, is selling at a very reasonable earnings multiplier (less than 9 times) which is currently the lowest price earnings ratio now available in tobacco shares. In addition, the yield of 5.3% on the current $3.20 dividend, (which may be increased later this year), is reasonable. The stock represents a good value at current levels as it offers a satisfactory return while at the same time presenting an opportunity for market appreciation.

American Tobacco has done a creditable job and Philip Morris has improved its position (pioneering the flip-top box with its Marlboro advertising). Lorrilard, whose longer term record as shown in the table is less impressive has recently shown a sharp increase in sales and earnings stimulated by the favorable Reader's Digest article on its micronite filter. Only Liggett & Myers seems to be losing ground.

Close-up on Liggett & Myers

Let us look at Liggett & Myers a little closer. In 1955 Liggett & Myers products accounted for 15.8% of the overall market which totaled 382.1 billion cigarettes. In 1956, a year that cigarette consumption rose 3.4% to 395.4 billion, Liggett & Myers' percentage of the market declined to 15.4%. Furthermore, the consumption of Chesterfield regular declined to 25.4 billion from 32.5 billion (a 22% decline).

L & M cigarettes, Liggett & Myers' entry into the filter tip field, has achieved moderate success thus far in getting an important piece of this new filter market. Actually, Liggett & Myers was alert to the changes in consumer habits and was one of the first companies to bring out a filter tip cigarette. In October of 1953 the company introduced L & M filter regular size cigarette and in August of 1954 brought out L & M filter king size. Despite the fact that Liggett & Myers had the jump on the industry, and notwithstanding the fact that they had two entries in the filter tip field — regular and king size — the growth in consumption of these two brands has not been particularly outstanding.

At least one reason why Liggett & Myers' filter tip products have not established an outstanding record of consumer acceptance may be found in the fact that the company's advertising expenditures during the 1954-1956 period were increased by only a very nominal amount as will be noted on the table labeled "Advertising Expenditures". Liggett & Myers' advertising outlay actually declined in 1955 as against 1954. It is true that from 1954 to 1956 there was an increase but it amounted to only $956,000. Such action by the company during a period which has proven to be most crucial in terms of the new filter tip market while at the same time bringing out two new products is considered quite a paradox. In addition, it must be remembered that the advertising dollar bought less in 1956 than in 1954 so that although their budget was higher by $956,000, the funds conceivably were buying less actual advertising space and time.

In recent years the public seems to have become more advertising conscious. In many cases the format and method of presenting the advertisng message have become equally as important as the message itself in getting a consumer acceptance of a product.

Advertising Psychology

Today's technique, designed to influence people and make sales, has reached such a high point of intensity that in planning a program — in preparing copy — one must take habits and prejudices into consideration. Spending is not enough. The Piel Brothers "Harry and Bert" advertising has made a tremendous success because it presents the foibles of human beings in a most humorous fashion. In our mind's eye, we can recognize people we know instantly.

In the case of Liggett & Myers the "Smoke for real—smoke Chesterfield" in which they present groups of extremely youthful teenagers of both sexes in their social activities seems to many people to hit a false note in that it creates the impression that it is encouraging minors to smoke.

Their current slogan, "Live Modern", the type of program that they use for selling L & M Cigarettes, has a way too of suggesting that although women didn't smoke years ago, it is all right for them to smoke today.

Therefore, it seems what is most important in advertising is the appeal itself rather than the amount of money spent.

Referring to the Sales and Earnings Index for Liggett & Myers,—it is quickly seen that the company's performance is substandard, and its stock market action has been the poorest in the tobacco group, a usually good gauge to a company's progress. We do not anticipate much gain for Liggett & Myers this year, although earnings may rise to $6.50 per share from the $6.39 per share in 1956 —END

Evaluating Position and Outlook for 75 Leading Stocks

(*Continued from page* 87)

the others is warranted, for Dow has repeatedly outperformed other chemical companies in year-to-year sales increases. And this, after all, is the real test of whether the exceptionally large research expenditures that characterize the industry, are paying off.

The Oils, too appear to warrant their premiums. Despite their shortrun difficulties, expansion of industry sales and earnings seems certain. Socony Mobil, therefore, at a 5% yield offer good value, as does Gulf, if the 5% stock dividend continues to augment the cash return. The lower returns on Standard of New Jersey and Texas Company may diminish their short term appeal, but their dominant positions in the industry and extraordinary growth records, speaks for itself.

On the basis of this type of analysis, commitments in the exceptionally low-yielding growth stocks would be foolhardy at the present time. For all the bright future of the aluminum industry, Alcoa, at 1.6% and Reynolds Metals at 1.3%, are capitalizing growth too generously in light of the current overcapacity, and the tremendous funds companies will have to expend in developing new markets for their products under increasing competition.

Conversely, the 9.5% yield afforded by the Texas Gulf Sulphur shares is too high for comfort. It bespeaks an unhealthy situation in the sulphur industry—one verified by the recent cut in sulphur prices for the first time since before World War II. Similarly, the high yielding rails on our list, reflect the economic disadvantages of the industry rather than investment value at this time.

individual Outlook Primary

After all is said, it is apparent that only careful scrutiny of each individual situation will yield satisfactory results. But company analysis must be correlated with basic market conditions. Perhaps one cogent lliustration will make the point.

International Paper at 87 is no less a fine company than it was last year at its high of 144½. Undoubtedly the industry's overcapcity and less favorable short term outlook contributed to the drop, but the company still stands up pretty well under statistical analysis. Financial condition is exceptionally strong, management is considered "tops' in the industry, and near term earnings, even if they drop to $6.00 per share will still cover dividends twice over. It might also be pointed out parenthetically that the high last year was made in a year in which earnings also dropped, and more drastically than they probably will this year.

There is a lower quotient of confidence in the immediate outlook for the company's earnings by investors thinking in terms of the unfavorable conditions of the industry as a whole.

As far as the other companies are concerned, each of the ratings in the accompanying table have been arrived at after the most careful analysis of the statistics and intangibles in each instance. They should provide a helpful guide in appraising your own securities. —END

Which Companies are Borrowing for Working Capital — for Expansion?

(*Continued from page* 70)

higher return than would be demanded of a bond. Today, for instance, a manufacturing corporation with a credit standing good enough to float a five per cent bond probably would have to offer a six per cent dividend rate on its preferred stock. Thinking in terms of the net cost of capital, therefore, it would cost the issuing corporation 2½ times as much to finance with preferred stock as compared with bonds ($24 per $1,000 against $60 per $1,000).

Tax considerations have virtually obliterated stocks as an instrument of finance. Aside from the field of public utilities, and those instances where industrial corporations, through the "sweetener" of conversion, use preferred stocks as a substitute for common stock financing, the preferred stock has been relegated to a minor new financing role. Indeed, railroads, wherever permitted by the Interstate Commerce Commission, have been busily engaged in exchanging preferred stocks for bonds in order to take advantage of the resultant tax savings.

While one cannot overemphasize the importance of inflation in management decisions regarding outside financing, there still exist some managements to whom inflation apparently is not the principal consideration. **Eastman Kodak**, for example, can point with pride (if that is the proper term) that even in this day and age its capital structure is completely free of long term debt. This is indeed something of a mark of distinction. Viewed from the other side of the mountain, however, the policy of remaining entirely debt free is vulnerable to the following line of criticism: If one of the basic functions of corporate management is to preserve the integrity of the stockholders' investment, and if the integrity of that investment is constantly being threatened by more and more inflation, and if further inflation is considered inevitable in the years ahead; then, it is clear that the managements of debt free companies must review their policies to serve the best interest of

the common stockholders. If the national economy were to turn downward sharply, then those managements which have taken a liberal view toward debt financing may be hard pressed to maintain a position of sound solvency. In this event, the advocates of a debt free capital structure will have been vindicated. Should the economy be subjected to greater inflationary pressures with each passing years, then the "no debt disciples" may be presumed to have been as over-conservative in their financial management as Sewell Avery was in refusing steadfastly to expand Montgomery Ward.

The New Swing to Equity Financing

In very recent years, the pendulum of new financing seems to be swinging moderately away from debt financing and toward equity financing. In 1950, for instance, debt securities represented 77 per cent of all new corporate security issues. In the last three years, the ratio has held steadily at about 72 per cent. If the rising trend toward convertible bonds is recognized, then the basic tendency away from long term debt is even more pronounced than is indicated by the figures alone. Companies like **Sinclair** and **Phillips Petroleum,** have made substantial use of the convertible bond, issuing new ones in large amounts as old ones are converted.

A number of reasons account for the mild decrease in emphasis on long term debt. In the first place, many managements may feel that they have approached the point of saturation in debt financing. Furthermore, doubts over the future course of business, coupled with higher interest rates, and the fact that common stock financing under these conditions is more desirable may have discouraged some corporate executives from pursuing the dancing damsel of debt too far.

The enormous volume of corporate debt financing in the past decade has lifted the ratio of long term debt to total capitalization for industrial companies from a nominal 10 per cent in pre-war years to about 25 per cent presently. For a typical manufacturing concern to push the debt horizon beyond this level may be inviting trouble.

The general impression in some quarters is that high interest rates may have discouraged many potential borrowers from entering the market for debt capital. This conclusion, in my judgment, is subject to considerable doubt. In the first place, it should be remembered that the dollar amount of new bond financing in 1957 will exceed all previous figures by a very wide margin. What is more, to a company like **American Telephone and Telegraph,** which is more or less committed to a fixed ratio of debt to total capitalization (about 35 per cent) tight money and rising interest rates probably are not as significant in formulating a decision regarding debt financing as is the urgency of completing a particular phase of its expansion program needed to fulfill backlog orders. To a company like **Lehigh Portland Cement** which recently offered a $30 million bond issue carrying a 4⅞ per cent coupon, the cost of the borrowed money probably represented a far less important consideration than the knowledge that its debt-free capital structure could well support the use of bonds.

In the first five years following the war, corporate profits rose faster than common stock prices. Since 1950, the reverse has been true, and stock prices have risen faster than profits. The generally favorable stockmarket climate of recent years probably accounts for much of the revival in new equity financing. After all, no one can blame corporate managements for their reluctance to originate new common stock issues at a time when common stocks were selling at from six to eight times earnings. By the same token, no one can blame these same managements for casting furtive glances at the equity market when their common stocks are selling at from twelve to twenty times earnings or more. In short, new common stock issues are appealing to corporations when the stockmarket is rising faster than profits, not the other way around.

Late last month the **Standard Oil Company (New Jersey)** announced that it expected to come into the equity market before the end of the year for between $250 million and $300 million of new capital. When it is consummated, this piece of financing will represent the third common stock issue this

year involving figures of that general magnitude. Last February, **Socony Mobil Oil** sold nearly $200 million of new common stock; and in June, **International Business Machines** offered stockholders the right to purchase $231 million of additional common stock. If one were to add to these three offerings the $86 million raised by **Anaconda** and the $61 million obtained by **Armco Steel**, the total would be greater than the aggregate volume of common stock offered by all corporations in 1950.

Renewed interest in common stocks by smaller investors has been given further impetus by the tendency among corporations to pay out a steadily increasing proportion of earnings in the form of cash dividends, and to retain a smaller share for re-investment in the business. In the immediate post-war years, the typical corporation paid out about one-third of its earnings in cash dividends and added the balance to corporate surplus. Since then, the pay-out ratio has increased steadily, rising to 42 per cent by 1950 and to 57 per cent in 1956. This year the percentage of earnings paid out in dividends will be even higher. The significance of this trend is apparent. Corporations have tended to rely less and less upon retained earnings as a source of capital for expansion. The reduced emphasis upon reinvested profits means greater emphasis on outside financing, and under todays conditions and outlook, it is quite likely that industrial corporations will continue to place greater reliance upon equity financing. END

Profit and Income

(*Continued from page* 95)

Sound Value

Allowing for about the usual Christmas-season impetus, this will be a fairly good year for retail sales of soft goods. May Department Stores is one of the largest and best-managed retailers. It has paid continuous good dividends since 1910. As was noted here previously, earnings rose for five consecutive years through 1956, while margins improved for three consecutive years. The profit gain last year was a little over 7.1% to $3.31 a share. In the fiscal first half ended July 31 margins improved further, and profit showed a year-to-year gain of about 7.6%. Current-year earnings promise to rise to around $3.55-$3.60 a share, which would be a new all-time peak. Dividends are on a secure $2.20 basis. Comfortable finances and payout policy in recent years indicate possibility of a boost in the rate within no great time, perhaps to $2.40. The stock is now around 37 in a 1956-1957 range of 48½-35½, yielding more than 5.9%, with potential yield nearly 6.5%, given a $2.40 dividend. We repeat, mainly for guidance of new readers, that the risk seems low, the yield attractive, and that there is a basis for moderate, but worthwhile, appreciation.

Another Look

Taking another look at some stocks previously recommended here, American Tobacco and Reynolds Tobacco "B" remain attractive for secure, relatively high income return, plus potentials for moderate appreciation from present levels. . . . Banking on a dividend boost ahead, we continue to favor Corn Products for conservative accounts. . . . Among growth utilities, Southwestern Public Service, meeting good support around 30 in a 1957 range of 33⅛-26, remains a sound investment choice. The present rate of profit growth is moderately less sharp than those of some of the premium-priced southern utilities, but is much above the industry average. Current yield is around 4.6%. With an early dividend boost expected, potential yield is around 5%. For comparison, present average yield of electric utilities is about 5.2%. . . . Air Reduction is down over 20% from its high and selling around 12 times likely 1957 earnings. Longer-range prospects for the company's principal lines (industrial gases and related equipment) remain promising, those of its chemical lines better than for chemicals generally. Indicated value argues against much more decline in the stock, but we cannot say that value will entirely prevail in a scared market. You can wait and try to guess bottom — which is easier said than done—or buy in odd lots on a scale down. We suggest the latter.

Drugs

Drug stocks are generally down considerably from their highs. Most strike us as better holds for longer-range investment than new buys. However, Warner-Lambert is priced moderately enough to have merit for buying. The bulk of sales is in trademarked proprietary remedies, cosmetics and toiletries, although volume in ethical drugs is rising. Listerine, the widely familiar mouth wash, remains a big-selling item. More than doubled since 1952, earnings reached a record $4.50 a share last year, against 1955's $4.07. Recent trends suggest 1957 profit around or somewhat above $5 a share. Since growth here, as in the drug field generally, is largely independent of the business cycle, some further 1958 gain appears probable. Now at $2.50, dividends have been raised for six consecutive years; and the earnings trend implies a further increase ahead. Presently around 57, off from earlier 1957 high of 68½, the stock is priced around 11 times indicated 1957 earning power, yielding about 4.4%. END

Keeping Abreast

(*Continued from page* 104)

Sears, Roebuck & Co. is seeking closer relation between top-management, 33,000 supervisory employes, and 17,000 suppliers. This move takes the form of a quarterly publication, which is not a house organ, but a guide to present and future policy and an explanation of how pricing and even such things as women's fashions, are gauged months in advance. —END

Does New Population Structure Provide a Floor in Recession?

(*Continued from page* 67)

over, if the senior citizen is defined not by age but by a "retired" work status, his number may grow much faster than is indicated by the age statistics. Even today 57% of men in the age group 65-69 have not retired; almost 30% of men over 70 are still in the work force. These percentages will certainly decline notably in the next decade, as private retirement systems broaden out and as more and more men with social security eligibility move into these age brackets. For all men over 65, the "participation rate"—that is, the percentage in the work force—fell from about 48% to about 40% between 1947 and 1955; it may be down below 30% by 1965. This alone would add about 1.5 million additional men to the "retired" classification. Retirement status, of course, has profound implications for travel and other recreational industries.

Regional Population Changes

A final aspect of the population trend that merits discussion from a marketing point of view is the regional trend (see table). For the national economy, net immigration was mentioned as being a relatively unimportant, and probably constant, population variable. But the American population is notoriously mobile; it moves across state and regional lines in astonishing numbers. As a result, even though birth rates by region do not differ extremely widely, the population trend by region shows notable diversity.

The fastest growing region of the country is the Far West, or Pacific region, where the number of persons is expected to increase almost a third between 1955 and 1965. Included in the area are California, Washington and Oregon. The Mountain States – Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah and Nevada—rank second as a region, with a growth expectation of 29%. At the other extreme, the East South Central states – Kentucky, Tennessee, Alabama and Mississippi – have an indicated growth rate, on average, of only about 3%. The fastest growing section of the South is the South Atlantic area—including Virginia, West Virginia, North Carolina, South Carolina, Georgia and Florida (and including the District of Columbia). The population of Florida, the fastest-growing state in the area, is expected to increase by about 40%, or about as rapidly as California. Despite the continuing influx of older people into both of these states, the age-structure of the population is not expected to change significantly from the national pattern; in both states the birth rate is also high.

The state and region projections of population have a considerably greater margin of error than the national projections, of course, since they have to deal with migration. Nevertheless, they point quite clearly to a continuation of the historical westward drift of the American population. At the beginning of the nineteenth century, the center of U.S. population, geographically, was near Baltimore, Maryland. By 1900 it had drifted westward to Columbus, Indiana. By 1950 it had crossed west of the Wabash, into Illinois. By 1965, it will evidently be close to the Kansas-Missouri border. American industry has followed steadily in the wake of this westward march; it will doubtless continue to do so over the next decade. —END

Answers to Inquiries

(*Continued from page* 102)

gain after taxes of $713,000, or 31¢ per share, was realized from the sale of property in the year ended June 30.

Current quarterly dividend is 50¢ per share.

The business is cyclical but it also has some growth prospects.

The outlook over the near and intermediate-term appears favorable for increases in sales and earnings. —END

As I See It

(*Continued from page* 61)

reserves could be used as a powerful lever in dislodging Great Britain from her position as a leading trading nation and international banker. Moreover, these resources are just about all that Germany has after the confiscation of her colonial possessions and the disappearance of her foreign investments. For these reasons, Bonn is not likely to squander these vital assets by upvaluing the D-Mark simply to accommodate her weaker trade partners.

At the same time Germany has a negative trade balance with the dollar area which is likely to widen further as a result of coming $1 billion German expenditures in this country for weapons. Under these circumstances one can hardly expect Bonn to further impair the value of the D-Mark in relation to the dollar by a unilateral upward revision of the D-Mark. Furthermore, virtually every segment of German political opinion is adamantly opposed to any solution which would require domestic inflation. Too many Germans have bitter memories of the ravages of inflation to be willing to submit to it for the sake of other nations. A general revision of currency relationships would be more acceptable to the Germans than a unilateral up-valuation of the D-Mark. Thus, there is no chance that Bonn will revalue the Mark without some corresponding concession from England and France. Hence, the prospect is that Bonn will reluctantly accede to a European-wide currency shakeup if one can be worked out. Negotiations will be conducted in secrecy and the final decision will not be announced until after the coming meetings of the Organization for European Economic Cooperation and the crippled European Payments Union.

Britain's Dilemma

An equally cogent reason for expecting a general reappraisal of European currency values is found in the fact that even if the British and the French should successfully check their inflationary pressures, their prices would still be higher than those of German goods. Moreover, while the climate of opinion is considered less favorable for further wage increases in England this year, this does not dispel reservations about the government's ability to take a firm stand against unreasonable wage demands. One also wonders to what extent the present British government will be able to sacrifice social welfare schemes in order to achieve currency stability. In addition, London's avowed determination to continue long-term lending and investment abroad offers little confidence in the stability of Sterling. For this policy in the past has reinforced inflationary pressures at home. However, it is highly unlikely that, in the absence of U.S. and Canadian loans, England will be able to achieve this ambition inasmuch as she will not be able to build up a surplus large enough to cover both her own investments and the capital requirements of other Sterling nations. A sharp decline in British investments is more likely.

New Franc Weakness Expected

But the most immediately impelling reason for widespread revaluation of European currencies is the imminent, certain and full-fledged devaluation of the French Franc. There is no doubt now that France's recent oblique devaluation will not prove adequate in the face of growing clamor by farmers for higher prices, booming wage demands, strikes and the inability of the government to eliminate the complex structure of subsidies. The fall of the latest French regime has intensified the pressure on the Franc. Moreover, the prospect of a protracted interlude between administrations will result in a new inflationary spiral, a further outburst of speculation against the Franc and a new flight of capital out of the country. Chances of a renewed wage-price spiral are enhanced by the absence of any real government. Unions will push even harder now for higher wages. Price controls will be increasingly flouted. As a result, it will become necessary to devalue the Franc even beyond the 420 rate established on August 10 by Finance Minister Gaillard. Any such move could only have an unsettling effect on the whole European currency structure and lead to a wholesale revamping of European money rates. —END

Lower Tops and Bottoms

(*Continued from page* 63)

that is not good enough when translated into total corporate earnings and dividends, and related to present average stock prices.

Looking at the record of the last five years, long-pull business growth and more inflation would not necessarily assure proportionate growth of earnings. Thus, from 1951 through 1956 industrial production rose about 19%, gross national product over 26%, pre-tax earnings less than 4.4%, while net profits shrank by some 2%. Obviously, a cautious, conservative, selective investment policy remains in order.—Monday, October 7.

The Trend of Events

(*Continued from page* 59)

ing to maintain our position in a life and death struggle with Russia for world acceptance of our type of democracy.

In our own country the "Little Rock Episode" will arouse the latent hatreds in the South that we have been trying to subdue since the end of the Civil War. Instead of splitting the Southern factions, it will knit them closer together.

And as far as the Negro vote is concerned, I doubt that it will help the Republican Party, because the use of force may set back the gradual integration which was already in process, and which so many colored people too, thought was the best way to solve the problem in order to avoid class hatreds.

The damage done is terrible to contemplate, and if there was ever a time when the Federal government should modify its stand it is now. And I think if President Eisenhower will use his own fine conciliatory abilities, it will give us all reason for hope that the wounds can be healed so that the scars will gradually fade away. —CHARLES BENEDICT

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